PIK PROGRAM AND ITS EFFECTS ON AGRICULTURAL SUPPORT BUSINESSES

HEARING

BEFORE THE

SUBCOMMITTEE ON ENERGY, ENVIRONMENT, AND SAFETY ISSUES AFFECTING SMALL BUSINESS

OF THE

COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

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PIK PROGRAM AND ITS EFFECTS ON AGRICULTURAL SUPPORT BUSINESSES

THURSDAY, APRIL 28, 1983

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ENERGY, ENVIRONMENT, AND
SAFETY ISSUES AFFECTING SMALL BUSINESS,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 8:35 a.m., in room 2359-A, Rayburn House Office Building, Hon. Ike Skelton (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN SKELTON

Mr. SKELTON. The Subcommittee on Energy, Environment, and Safety Issues Affecting Small Business will now come to order.

This morning, our subcommittee is meeting to consider the effects of the PIK, or the payment-in-kind program, on small agricultural support businesses, which are also known as agribusinesses.

First, I want to say that I believe the PIK program is a good attempt to help restore the vitality of the farm community. It has been generally well-received, even by some of the groups that will deliver testimony before this subcommittee.

Unfortunately, there are a number of small businesses that cater to farming: Producing farmers, such as the seed dealers, the fertilizer dealers, the machinery repairers and sellers, the insecticide and pesticide sellers, and labor-intensive field services. These groups face significant reduction in their businesses. Because of reduced profits in the past years, some of these businesses may not be able to wait out a Government-sponsored slump unless some kind of assistance is provided.

We are here to receive testimony to build a record for the House of Representatives. This includes testimony from the Government's Department of Agriculture, and from SBA, outlining their assessment of the impact on small business, and also industry's assessment on the impact of small business.

Also, we are soliciting suggestions from the witnesses about what action can be taken, and what they recommend, to prevent a large number of business failures in the most cost-effective manner.

Our first witness today is Mr. J. Dawson Ahalt, the Deputy Assistant Secretary for Economics with the U.S. Department of Agriculture.

I would, before, Mr. Ahalt, before we begin, to announce that because of a conflict that I have, I am also on a subcommittee that

will be marking up this morning; I have a series of amendments in that subcommittee; other members of this committee have been kind enough to say that during my ins and outs, they will be kind enough to Chair this hearing.

So I hope that you and the other witnesses will understand why I will be absent from time to time.

Mr. Ahalt?

Mr. ROTH. Mr. Chairman?

Mr. SKELTON. Yes?

Mr. ROTH. I know time is at a premium, but I wonder if I could just make a brief statement?

Mr. SKELTON. Certainly.

OPENING STATEMENT OF HON. TOBY ROTH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. ROTH. Thank you, Mr. Chairman. The PIK program is one of those programs that we in the Congress have a good feeling about because the feedback has been excellent.

Over the weekend, I had a chance to go back to the District, Mr. Chairman, I have 13 counties in my congressional district, one of which is Kewaunee. We have a 68 percent participation by the farmers in just that one county, and that is reflective of what is taking place throughout the State of Wisconsin.

And so, I think we in Congress are very sanguine about this program. But, by the same token, I think many times we have not reflected enough on how it is going to impact small business, and I would like to congratulate you, Mr. Chairman, for having this hearing.

Like you, I have a mark-up today in the Foreign Affair Committee. I tried to get it delayed, because I am so interested in this PIK program, but the chairman would not allow a delay of a couple of hours.

So, like you, I must go to a markup, but I again congratulate you and Mr. Hiler and the other members of the committee for having the foresight to hold this hearing.

Thank you.

[Congressman Roth's prepared statement follows:]

PREPARED STATEMENT OF HON. TOBY ROTH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

I am pleased that Chairman Skelton and ranking Republican Hiler have organized this hearing today to look at the effects of the PIK program on small agricultural support businesses.

The success of the PIK program is widespread in my district in northeastern Wisconsin. One county's participation is in excess of 65 percent, and that's quite significant considering the independent nature of Wisconsin farmers. For the most part, PIK has been responsible for improving farm prices and giving the farmer some breathing room from the stranglehold that began to tighten around his profits with the grain embargo of 1979. Indeed, PIK has given a hand-up to many farmers and has improved the farm income outlook near term.

But the question we must ask of PIK is: What effect has the program had on other important sectors of the farm economy? The implement dealer, the fertilizer dealer, livestock producers, and others that plan a vital role in American agriculture. But, in many cases, the PIK program has had a detrimental effect on these sectors of the agricultural economy. Clearly USDA's recent report on the PIK program points out some of these problems, but simply falls short of analyzing what should be done, if anything to help these support industries.

This hearing may provide us with answers as to whether we in Congress should assist the affected businesses, of which representatives are with us today. I want to thank all of the witnesses for appearing to provide us with their own assessment of PIK's effects on their businesses.

Agricultural support businesses represent an important sector of the farm economy. It would be short-sighted policy for the Federal Government to aid farmers but permit the demise of support industries which are so vital to those same farmers. Thus, it is crucial that we in Congress arrive at an objective assessment of the PIK program's effect on these businesses.

I also want to thank representatives from USDA and SBA for appearing today. Your input will be vital in determining what, if anything, should be done to aid the agricultural support industries adversely affected by PIK.

One further point I would like to make relates to one shortcoming in USDA's report, "An Initial Assessment of the Payment-In-Kind Program." While the report does look at the effects of PIK on supermarket prices, it does not focus on the effects of PIK on some industries that utilize agricultural produce.

For example, in my congressional district, there is a firm that produces alcohol fuel from corn and distiller's grains. Prices for the grain used by the firm have risen, in part due to the PIK program. I do not believe that the USDA report adequately addresses itself to the problems of the alcohol fuel industry or other such end users. I, therefore, urge USDA to more thoroughly investigate the effects of higher farm prices on such industries.

Again, I want to thank all of the witnesses for testifying today. With your help, we can arrive at an accurate assessment of the effects of the PIK program on small agricultural support businesses.

Mr. SKELTON. Thank you, Mr. Roth.

Mr. Torres, do you have any comments this morning?

Mr. TORRES. Mr. Chairman, in the interest of time, I will forego any comments. Thank you.

Mr. SKELTON. Thank you.

Mr. Ahalt?

STATEMENT OF J. DAWSON AHALT, DEPUTY ASSISTANT SECRETARY FOR ECONOMICS, DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY TED EICHERS, AGRICULTURAL ECONOMIST, ECONOMIC RESEARCH SERVICE, DOA

Mr. AHALT. Thank you, Mr. Chairman.

Mr. Chairman, I have on my immediate left, and your right, Ted Eichers from the economic research service, accompanying me this morning. Mr. Eichers heads up our input work.

What I would like to do, Mr. Chairman, for the sake of brevity, is to ask if I could submit my statement for the record, and then summarize some key points.

Mr. SKELTON. That would be fine, without objection, so ordered.

Mr. AHALT. First Mr. Chairman, as we looked at the agricultural situation carefully last fall, in the face of record crops and very weak demand, we concluded that something bold and dramatic had to be done in order to adjust supplies in line with the weak demand picture for 1983.

The Secretary of Agriculture began holding meetings with agricultural leaders, people from commodity groups, representatives from the input sector, and Members of Congress, to talk about this problem, and to seek solutions.

In these discussions, we found widespread support for a payment-in-kind program. The more we listened, the more it became obvious it was the only way that we could get a substantial adjustment in supply in 1983.

Mr. SKELTON. Have you all ever considered the proposal which I have as a payment-in-kind export program?

Mr. AHALT. Well——

Mr. SKELTON. Was that one of your considerations this year?

Mr. AHALT. It was, Mr. Chairman, and as you know, the wheat flour, sale that we made earlier on to Egypt was financed throughout payment-in-kind, and we are continuing to look at——

Mr. SKELTON. You know, we are still just playing with our own money here until we get a strong export program. We are just putting veneer on the problem, you understand?

Mr. AHALT. I understand that very clearly, Mr. Chairman, and we are continuing to work to try to expand the export side. We have to sell the products that our farmers can produce. We are with you all the way on this, Mr. Chairman.

Mr. SKELTON. I didn't mean to interrupt.

Mr. AHALT. That is quite all right.

Mr. SKELTON. But we are worried very deeply about this, and quite frankly, I don't see that much help coming out of the administration.

Mr. AHALT. Well, Mr. Chairman, our people are meeting constantly with the Europeans to try and work this problem out. The Deputy Secretary is leaving this weekend to go to Brussels. We are meeting almost on a monthly basis.

Mr. SKELTON. Over the last 3 years our agricultural exports have gone down.

Mr. AHALT. That is true, but that is because the demand worldwide is weak; the U.S. dollar is strong; and we have had a financial collapse in a number of countries. It was because of these things, Mr. Chairman, that we concluded we had to do something substantial on the supply side while demand and these other factors begin to adjust. At the same time we have continued to work on trying to improve our competitiveness in export markets against what we consider to be unfair competition.

Mr. Chairman, we did get sign-up in the payment-in-kind program that exceeded our expectations. I will be very candid with the committee, the enthusiasm on the part of farmers was greater than we had expected.

We obtained a sign-up equal to roughly 81 percent of the base acreage. That means that about 83 million acres of the seven-program crops in this country may come out of production in 1983. Now I say may come out of production, because that is important.

Of that 83 million acres, there are roughly 13 million in a category that can still drop out of the program without a penalty. This is because some farmers are only in the paid diversion and the acreage reduction part of the program.

They will have an option later this spring to decide whether or not they want to cut back. If they decide not, they can maintain full production. The extent to which they make that decision is going to depend on market prices and weather patterns in coming weeks.

So, I want to caution the commmittee that we put that 83 million acres in the proper perspective.

Nonetheless, we are going to get a big reduction in plantings in 1983. There is no question about that. The significant thing,

though, Mr. Chairman, is that the payment-in-kind program will maintain market supplies. In other words, supplies available for the market are not going to be reduced. That means that farmers will have an opportunity to earn cash returns and to maintain a positive cash flow.

Maintaining that positive cash flow in the face of reduced outlays, of course, affects the input businesses that we are talking about here today. However it does help restore the financial viability of agriculture. We all know we need a strong financial recovery if we are going to turn our agriculture economy and our input industry around. We believe this is important.

Farmers spend annually about $140 billion on production expenses. These large expenditures, in the face of depressed commodity prices for the last 3 years, are why farmers, are a bind. Even with this high level of spending, the input industry has not been doing that well. We can look back over the last several years and see that a number of input industries have been hurting.

They have been hurting because our agriculture has been slumping and something had to be done. We feel that the PIK program has brightened the future for agriculture, and it has already boosted farmers' spirits throughout the country.

I know input suppliers are concerned. There are problems in individual areas, but I believe this boost in farmers' spirits, plus the fact, Mr. Chairman, that on the day after the sign-up was announced, the share values of stocks of major input firms in this country rose on the stock exchanges, which suggests to me that the market believes that this action was positive. It was positive not only for farmers, but also for agricultural-related industries in the long run.

The other point I would make is that I hope that we do not lose sight of our longer-term objective in agriculture. We believe the PIK program to be a temporary step, but we believe it a necessary one, in reaching the real objective of improved farm incomes and economic activity in rural America.

We are estimating that with fewer acres planted, purchases for the major inputs, seed, fertilizer, fuel, pesticides, will be down. There will also be a smaller need for operating capital. Overall, we estimate input use nationwide to drop somewhere in the neighborhood of 5 to 7 percent for the year.

We are looking for fertilizer use nationwide, Mr. Chairman, to drop about 12 to 14 percent for the year.

Fertilizer prices are soft, so that the actual expenditures for fertilizer may go down even more than the reduction in volume. It is difficult to estimate, but it is possible that actual rates of fertilizer application per acre—the amount used per acre—could go up.

We do know that overall, fertilizer purchases are going to go down and that is going to hurt retailers. We believe it will impact most severely on retailers in the Western Corn Belt, areas very close to yours, Mr. Chairman.

Mr. SKELTON. Not very close to, right at.

Mr. AHALT. Excuse me, where we have large demands for fertilizer. So far as farm machinery goes, this industry has been in financial stress for a number of years. It has come from high interest

rates, poor performance in the farm economy, and strong competition abroad.

We spent considerable time with people who are concerned about the farm machinery industry's prospects with the payment-in-kind program. We now believe that those sales are only going to be down this year somewhere in the neighborhood of 2 to 3 percent. This is because we believe that farm machinery purchases depend more on income prospects than they do on the number of acres planted.

At the same time, the amount of repairs on machinery will drop, but here again, I want to emphasize, the farm machinery businesses' sales have been dropping each year since 1979. I believe that this program, if anything, is going to help turn around this situation for that industry.

We are projecting pesticide use, Mr. Chairman, to drop somewhere in the neighborhood of 12 to 15 percent this year. It was down 3 to 5 percent last year, 1982. We had thought it would go down even if we had not had a payment-in-kind program, but of course, this program does have more substantial impact.

It will also hurt the industry in areas where—custom applicators operate, particularly in cotton country. We know it is going to be tough for them this season.

The seed business, particularly seeds of the major five PIK commodity crops, will be impacted. We believe that purchases will drop somewhere in the neighborhood of 12 to 15 percent, and it will be difficult for this segment of the industry.

On the other hand, for those firms that sell seeds that will be used on the conservation use acreage, their demand has increased substantially, and to the extent that firms are diversified this will help. Perhaps there aren't many that fall in that category, but these businesses will at least be helped by that feature of the program.

We are projecting energy use to drop some 8 to 10 percent for the year, but hopefully, except for—oil dealers or wholesalers and bulk handlers—that are totally tied to the farm business, we believe that most of those firms are diversified and will be able to deal with this situation.

We are also projecting a reduction in credit needs in 1983. We believe that operating credit needs for farmers will drop somewhere in the neighborhood of $2.5 to $3 billion. That will reduce the pressure for short-term borrowing, and will help farmers with their longer-term debt situation.

Employmentwise, we know there will be some regional impacts, particularly in cotton ginning and rice-milling areas.

We have been concerned, also, about the impact on the warehouse and elevator industry. This program means that we will see a larger amount of grain, Mr. Chairman, move from the surplus to the deficit areas of the country. The warehousing industries will participate in that activity, so we do not believe that we will have a major negative impact on this industry. As I said, free market supplies of commodities are not going to be reduced, they are going to be maintained.

We have estimated that employment in agricultural-related industries, could be affected by roughly 2 to 3 percent. Not all of those

people are going to lose their jobs. We think that you will see a reduced work week and other temporary changes.

The transportation industry, we believe, will not be adversely affected. Again, they are going to participate in helping move grain into deficit areas.

Mr. Chairman, that is a brief summary of my statement.

[Mr. Ahalt's prepared statement follows:]

PREPARED STATEMENT OF J. DAWSON AHALT, DEPUTY ASSISTANT SECRETARY FOR ECONOMICS, DEPARTMENT OF AGRICULTURE

Mr. Chairman and members of the committee, I appreciate the opportunity to appear before you to discuss the Department's Payment-in-Kind (PIK) program and what we estimate will be its potential effect on rural areas.

Last fall, as worldwide demand continued to falter in the face of back-to-back record crops, it became obvious that bold and innovative steps were needed to deal with the situation. Secretary Block began meeting with commodity groups, agricultural leaders, the input supply industry and members of Congress to discuss the severity of the problem and to seek solutions. Out of these discussions, the idea of a large payment-in-kind (PIK) program to reduce production and stocks clearly sparked the most interest. In fact, the more we discussed the idea, the more widespread the enthusiasm became.

The development and sign-up phases of the PIK program are now history. Sign-up exceeded our expectations. Roughly 81 percent of the base acreage of the five PIK commodities (plus barley and oats) was signed up in the PIK and other acreage reduction programs. About 82 million acres, or one-third of the base acreage may be taken out of production and put into conserving uses in 1983. In should be noted, however, that this is the upper bound that may be removed from production. This is because of the 82 million acres; 13 million are only in the acreage reduction and paid land diversion programs. In this case, producers have additional time to determine if they want to comply with the program. Market expectations and emerging weather patterns will be dominant factors influencing producers' decisions.

While substantially reduced plantings in 1983 point to a cutback in current year demand for agricultural inputs, the PIK program will maintain commodity supplies in the market. Thus, producers' cash receipts can be maintained. And with reduced outlays, net returns will help improve farmers' financial positions which are crucial to set the stage for a future recovery in the agricultural input supply industry. I believe this is important.

Even with depressed conditions in agriculture, farmers in recent years have been spending over $140 billion on production inputs. These large production outlays in the face of depressed commodity prices have put many farmers in a tight financial situation. Moreover, even this level of purchases has not been able to keep a number of farm input manufacturers and dealers from experiencing hard times. Hence, something had to be done to brighten the future. The PIK program has already boosted farmers' spirits. I know some in the input industry are concerned. Others have taken positive steps to deal with the current setting.

As we look at the impact of this program, Mr. Chairman, I urge that we not lose sight of our long term objective. We need a sustainable economic recovery and we need a healthy agriculture. The two are obviously related. We believe the PIK program is a temporary step to help further the restoration of prosperity for our farmers. With that improvement will come better times for all industries involved in agriculture and rural America.

EFFECTS ON THE NONFARM SECTOR

With substantially fewer acres planted, current year demand for farm inputs will decline. Farmers will use less seed, fertilizer, fuel, and pesticides and will need less operating capital. Farmers will also reduce use of farm equipment, thus extending its life and reducing the need for repairs. It is important to note that the 1983 PIK program only allows voluntary reduced plantings of the major grains and cotton. Acreages of some other crops may expand, and haying and grazing have increased. Moreover, the improved cash flow positions that many farmers are likely to experience because of reduced production expenses and larger income should allow many operators to reduce debt or make capital purchases that they have delayed because of future prospects. Overall, total input use is expected to decline 5 to 7 percent in 1983.

Impacts on the input industry will be the most pronounced in the short-run and will vary from region to region. However, with the 1983 programs in place we expect the financial health of the farm sector as a whole to improve markedly. Commodity prices have already increased significantly. As our export markets strengthen, coupled with a stronger domestic economy, input demand should improve. This is in marked contrast to excessive commodity stocks that have been overhanging markets and depressing prices for several years.

Fertilizer use this year is likely to decline by about 12 to 14 percent. With the industry already suffering from serious excess capacity due to slack demand, some additional production facilities—primarily ammonia plants—may close. Since fertilizer prices are also likely to soften, the drop in fertilizer manufacturers' revenues will be greater than the decline in use. This effect will extend to fertilizer retailers, particularly in the major corn-producing areas, where the volume of business could drop off more sharply than in other areas.

The farm machinery industry has been under considerable financial stress in recent years due to the downturn in the farm economy, strong foreign competition, and high interest rates. The impact of the PIK program on farm machinery expenditures can be divided into two parts: (1) outlays for machinery, equipment, autos, and trucks; and (2) expenditures for parts, maintenance, and repair of existing equipment.

Farm machinery sales which totaled about $10 billion in 1982 are expected to be the least affected of all farm inputs by the PIK program. Farm machinery purchases as a result of reduced acreage are estimated to drop 2–3 percent. Further reductions in machinery sales and profits are of serious concern to the industry. However, since machinery sales are more closely related to farm income than plantings, improvements in income prospects resulting from the PIK program could possibly result in a slight increase in machinery sales.

Farm machinery sales have been dropping each year since 1979. However, unit prices have been rising throughout this period. Consequently, dollar volume has not dropped nearly as much as unit sales. Still, some machinery manufacturers are in financial difficulty.

The overall demand for maintenance, parts, and repairs is expected to decrease by 12 to 15 percent with the expected decline in planted acreage. However, per acre costs for maintenance and repair tend to increase with reduced acreage because there are certain fixed costs incurred regardless of acres.

Use of pesticides is expected to drop 12 to 15 percent. Pesticide use dropped 3–5 percent in 1982 and was expected to drop about that much again in 1983 under the previously announced programs. Expenditures would be down slightly more because of an expected modest price decline due to the reduced demand. While crop production accounts for about 95 percent of all farm pesticide use, crops involved in the PIK program account for about two-thirds of all crop pesticide use.

The impact on the basis pesticide manufacturer will be negligible, as farm pesticides account for less than 10 percent of the total revenues of nearly all such producers. Thus, a drop in farm pesticide sales of 12–15 percent would result in a total sales decline of less than 1 percent for all pesticide producers. Pesticide distributors and dealers who specialize in farm chemicals will be more seriously affected. However, pesticides generally account for a small share of sales of farm input suppliers. Some custom applicators, particularly those servicing the cotton industry, may suffer a more substantial loss of business. In general, however, the long-term effects of the PIK program on any segment of the pesticide industry should be minimal.

These expectations for pesticide useage assume normal weather and pest infestation. Of all farm inputs, pesticide useage is most affected by unforeseen occurrences. For example, if the cool, wet conditions we have recently experienced continue in the Midwest, greater soil insect and weed infestations may occur and additional pesticide applications may be needed.

Seed producers and retailers, particularly those concentrating in the principal program crops of wheat, corn, sorghum, upland cotton and rice, will be more severely impacted because of the direct relationship between acreage planted and seed use. The PIK program could reduce overall expenditures for seed by as much as 12–15 percent. At maximum levels of participation, quantities of corn and wheat seed purchased by farmers could decline about 17 to 27 percent, while cotton seed purchases may be down about 20 percent and rice 25 percent. Sorghum seed purchases could be down nearly 20 percent in 1983.

The market for hybrid corn seed is dominated by a small number of relatively large firms. These firms are likely to be able to withstand the potential reduction in demand as a result of the high level of PIK participation. There are several small seed corn producers, however, who were in financial difficulty before this year and

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are likely to experience further financial losses as a result of PIK. The greatest impact on seed sales will be in the western fringe of the Corn Belt where participation was high.

Producers of grass and legume seeds, on the other hand, are already experiencing a surge in demand and substantial price increases, because these seeds will be used for cover crops on the sharply expanded conservation use acreage. Some regional shortages of these seeds have been experienced.

Energy use is expected to decline by 8–10 percent. Liquid fuel use will fall by more, about 25–30 percent. Except for those cases where farmers are the primary clientele and program commodities are the primary farm enterprises, lower fuel use will have little effect on wholesale suppliers or retailers.

Despite reduced production, the PIK program is expected to improve the cash flow position of many farmers in 1983 and 1984 and, in turn, reduce their credit needs and outstanding debt. Operating credit needs during 1983 are expected to decline by $2.5–$3 billion due to the PIK-related reduction in input expenses. This decline is expected to be mostly for short-term borrowing rather than for intermediate or long-term credit. An additional reduction in demand for operating credit can be expected as a result of the added capital available to farmers from direct program payments made in 1983. Direct payments to farmers will also permit them to reduce outstanding debt, improve liquidity, and replace depreciated capital items toward the end of the season.

The employment effects of PIK will be negligible due to the capital intensity of most input industries. But some regional or local impacts on employment and economic activity in the food- and fiber-processing and distribution system could be greater. At the local level, for instance, cotton-ginning firms and rice-milling firms could face a 20 to 25 percent decline in the demand for their services. Firms and individuals that will face significant declines in demand for their services include those that retail or transport inputs; apply fertilizers, lime, pesticides, and other chemicals; service farm machinery and equipment; and provide custom farm services.

As a whole, warehouses and elevators that handle PIK commodities are generally not expected to experience a significant decline in volume of business during the 1983 crop year as a result of the PIK program. Since payment-in-kind commodities cannot be entered into the regular or reserve loan program, free stocks of commodities will be considerably larger than last year at harvest time. This will foster the handling and merchandizing of grain by warehouses and elevators. Also, additional business activity will be generated by the disbursement of PIK commodities to program participants. The CCC is relying heavily on industry warehouses and elevators to help with this phase of the PIK program, which is no small task.

PIK could affect possibly 2–3 percent of employment in closely related industries. Not all the workers affected will lose their jobs; some will face shorter work weeks or temporary layoffs, and some may face longer-term unemployment. As the $3 billion of added farm income generated by PIK works its way through the farm and nonfarm economy in late 1983 and through 1984, some additional jobs will be created to partially offset the effect of PIK. Already crop prices have improved significantly since announcing the PIK program and the general outlook in the farm community is brighter.

On the other hand, some increase in demand for both truck and rail transportation is expected from larger than normal feed shipments into deficit areas. Corn and sorghum movements may be greatest into feed deficit regions (Appalachian, Mountain, and Northeast). The PIK program may also influence grain flows within major producing regions, resulting in an increase of short-haul truck transportation.

Thank you. I would be happy now to answer any PIK or other questions you might have.

Mr. SKELTON. Mr. Hiler.

Mr. HILER. Thank you, Mr. Chairman.

I just have a couple of questions of Mr. Ahalt.

One, what would the prospect have been for the agricultural industry without a PIK program or something like it; and in your answer, I would like you to address not only what would have happened at the farm, but in all of the industry that is connected with servicing the farm.

Mr. AHALT. Mr. Hiler we have just been through 3 years, of depressed farm income in this country. As we looked at 1983, pros-

pects appeared even worse. We had larger stocks than we had ever had in absolute terms, and in a number of cases, larger in relative terms.

Federal outlays for price support activities last year totaled $11.6 billion. They are going to hit $21 billion in fiscal year 1983.

As we looked toward 1983 last fall, with back-to-back record crops in this country and throughout much of the world, the situation looked bad. We could see no basis for any significant improvement in demand, and as I mentioned to the chairman, the export picture was extremely depressed.

Farm land values were falling, a number of farmers were in very tight financial binds. That is why we felt we had to do something. The input industry could not do well under that kind of basic agricultural environment.

As I mentioned to you, a number of input firms were hurting financially. We could not let agriculture, nor the related industries, continue in that depressed environment.

That is why we felt something had to be done, and we felt it had to be substantial. I know that many people in the input industry believe that we perhaps opted for a larger adjustment in 1983 than we should have. We evaluated that matter carefully in making our decisions this year, but we felt we really needed to make a substantial supply adjustment.

Mr. HILER. In referring to, I think what is one of the chairman's concerns, and certainly in the industry, is if the industry is to be a growing, vibrant industry of the future, and I certainly think that it can be, the importance of exports is paramount.

I think you mentioned several things which have affected the level of export sales, both the worldwide recession, and in the case of some countries, depression in their commodity prices, which did not enable them to buy the level of food that we would like to have sold.

Second, the strength of the dollar certainly has a major bearing.

I would imagine the third thing would be just the general increase in production that has taken place in some of our major trading competitors like Canada, Argentina, and Australia.

Mr. AHALT. I think that is true, although I would argue—that the unfair competition that we are facing out of the European Community has hurt us more than the added production.

We have the supply. We have the supply to meet any competitor in the world, but what we can't do is meet competition that is subsidized in the export market. So, I think it has been the unfair competition factor, more than the added production in other countries that has caused the greatest harm.

Mr. HILER. What effect do you think, and how long will it take to work out of the effect, if there is one, a residual effect, take the 1979 embargo; take the embargoes in the midseventies of beans and wheat. What does that do to the potential for long-term export sales?

Mr. AHALT. We are still paying a price for those actions, because they hurt our ability to be a reliable supplier of products around the world, and it goes beyond that.

The 1980 embargo resulted in added bilateral agreements being signed by our competitors with the Soviet Union. Argentina,

Canada, and other suppliers have moved in to lock up business, but we haven't given up in this fight.

As you know, we announced on Friday that we in the United States are moving to try to negotiate another long-term agreement with the Soviets. We very much want to regain the share of our market that we lost from that embargo.

Mr. HILER. Let me just close—we have a lot of witnesses this morning—by saying I think the USDA really had its back against the wall with the farm community in its broadest sense—a number of small rural communities in my district, in going through those communities last September, October, November, with $1.90 to $1.94 corn, those communities can't survive very well.

The PIK program, or something like it, was desperately needed, and it is certainly not a cure-all, but gets us through a year. It is no substitute for an aggressive agricultural policy, but it is something that was necessary, and I think we have to do what it takes to ensure that other industries survive this year as best as possible.

But I think that the PIK program will have proved to have been the best thing we could do at the time. It is no substitute for an aggressive agricultural policy which includes not only concentrating on the cost in the input sector, whether it is energy, or fertilizers, or whatever, but also on the output, the export sales.

We just have to do an increasingly better job there.

Mr. AHALT. We agree with you, Congressman Hiler.

Mr. SKELTON. Mr. Torres?

Mr. TORRES. Yes, sir.

In your testimony, you cited a number of percentages regarding fertilizer and seed being down, decline in use of fertilizers and pesticides, as an example. How did you determine these percentages, the fertilizer, I believe you said, 12 percent to 14 percent decline; and pesticides, 12 to 15 percent. Do you still consider these figures accurate? Do you have actual early reports to indicate this?

Mr. AHALT. We don't have any early information, Congressman Torres, but I would just give you a brief sketch on how we try to estimate the demand. We look at the acres that we believe will go into production for the major commodities. We then look at the expected prices for those commodities relative to the prices of the inputs. We use that relationship to give us some idea of how much per acre of the principal nutrients like nitrogen, phosphate, and potash will be applied. We build up our estimate that way, by the major crops.

I think it is important to mention again, we are looking at nationwide requirements for all production, and of course some crops are not in the payment-in-kind program. For individual crops and for individual areas, the situation is going to vary.

Mr. TORRES. Thank you.

Mr. SKELTON. This gets us back to the issue of our exports, doesn't it? It boils down to that. Now, is the administration taking a hard look at my proposal for an export payment-in-kind program?

Mr. AHALT. Mr. Chairman, I can't speak specifically to this point because I have been working mainly on the domestic side for the last 3 months.

I don't know where we are in regard to analyzing your proposal. We do have the authority to run a payment-in-kind program under the existing CCC charter. That is how we financed the wheat flour export program to Egypt. We are continuing to look at this matter on a case-by-case basis. We are doing it that way, rather than launching into subsidizing exports, because we believe that that would only lead to——

Mr. SKELTON. We have to recapture that market first.

Mr. AHALT. We do, Mr. Chairman, we do. But we believe that we can recapture that more effectively by taking selective actions rather than moving back into an export subsidy program. That would end up, we fear, getting us into a trade war.

Mr. SKELTON. We are in a trade war, sir, and we are losing it.

Mr. AHALT. To our competitors.

Mr. SKELTON. We are losing it right now, and I think the sooner we realize that, the better off we are going to be. We are getting off the subject, but this is all wrapped up in one ball of wax. We are going to have to take this export matter very seriously.

I have one last question, sir, before I call Mr. Stenholm. Can you tell us when the Secretary of Agriculture plans to announce the USDA's plans regarding the PIK program for 1984? Because, if he delays much longer than July, this will cause severe problems for industry; is that not correct?

Mr. AHALT. It will, Mr. Chairman. We are in the process right now of analyzing the options for the 1984 wheat program. We are hoping to make an early announcement.

Mr. SKELTON. What do you mean by early?

Mr. AHALT. Well, earlier than the statutory requirement.

Mr. SKELTON. Ball park?

Mr. AHALT. Well, ball park, we would like to see the first crop report on winter wheat of the 1983 crop so that we know what kind of wheat crop we can expect in 1983. I would hope, Mr. Chairman, that the ball park would mean that we would be able to announce something early this summer.

Mr. SKELTON. Thank you.

Mr. Stenholm?

Mr. STENHOLM. No questions.

Mr. SKELTON. Thank you.

Sir, we sure do appreciate your being with us today.

Our next witness is Mr. Frank Swain, the Chief Counsel of Advocacy, Small Business Administration. Mr. Swain, nice to see you, sir.

TESTIMONY OF FRANK S. SWAIN, CHIEF COUNSEL FOR ADVOCACY, SMALL BUSINESS ADMINISTRATION

Mr. SWAIN. Thank you, Mr. Chairman, members of the committee. It is a pleasure to have the opportunity to appear before you this morning to discuss the impact of the payment-in-kind program on small farms and the agriculture service industry.

Based upon the latest figures, which Mr. Ahalt just reviewed, the participation of the farmers in the payment-in-kind program at the USDA should be a huge success.

Mr. Chairman, I realize you have a number of witnesses this morning, and if it is all right, I would like to summarize my statement so as to conserve time.

Mr. SKELTON. Please. Without objection.

Mr. SWAIN. Thank you.

Obviously, the impact of the program is going to vary by industry and vary by location and vary by commodity. One thing that we do keep in mind is that using surplus crops to pay farmers for not cultivating a large percentage of acreage should help alleviate the large surpluses in particular commodities, especially cotton, wheat, barley, rice, and corn. Prices of these commodities fell 10 to 25 percent from mid-1981 to late 1982.

This program should help raise the income of the Nation's small business farmers, but it will reduce the cost of Government support of agriculture. Successful Federal programs such as PIK may confer major benefits on one group in our economy while inadvertently having an adverse impact on another group, with the possibility of diverting as much as 50 percent of the crop base in selected commodities. The impact on several small business industries may be quite significant.

Based upon the recent USDA estimates, which Mr. Ahalt reviewed, we expect that reductions would represent decreases of 12 to 15 percent of purchases of seed, fertilizer, pesticides, and expenditures on the repair and maintenance of farm equipment.

What we have tried to do in our State is to suggest that there are a couple of different ways of taking a look at how this may actually have an impact. I also might add that, obviously, we are looking at something that we don't know very much about yet, but we have attempted to look at the current structure of the agricultural service industries.

Some of these industries have done quite well, others have been in decline. I would imagine that decline would reflect, generally, the decline in the success in certain crops and commodities.

In general, the effects of PIK will be greater the lower the growth rate of a particular agricultural support industry. This is because a strong industry with recent positive growth can survive a sales decline better than one which has had negative growth over the last few years. Our statement will give some figures on, for instance, the cotton ginning industry, which has had negative growth over the last several years, as opposed to some aspects of the fertilizer industry, which has shown a more positive growth.

Obviously, one of the factors is whether there are substitute markets, either for the products or the processes. Another major factor is whether firms are in industries that are dominated by large firms or small firms.

For instance, large firms in the fertilizer industry may be able to hang on quite well, while small firms in the fertilizer industry may have a much more difficult time, even though the industry itself may be considerably stable.

On the other hand, in an industry such as soil preparation, which is primarily dominated by very small firms, everybody is probably going to be more or less in the same boat.

Obviously, State and local area impacts are significant as well. Although the program applies across the country, of course certain

States are going to have significant major acreage reductions because they are involved with a particular commodities concern. Several States, such as Minnesota, California, Texas and Arkansas will have large acreage reductions in more than one crop. California will have large acreage reductions in cotton and rice; Minnesota, large reductions in wheat and corn.

One simple way of estimating the impact of these acreage reductions on local and small businesses is to look at the importance of each agricultural input industry and their respective State economies. As my statement notes, in some States, that is a much more significant part of the economy across the board than in other States.

Therefore, again, it is difficult to generalize, and we are going to have to take a look at specific areas to see how the market responds to what the program offers.

One of the major strengths of the PIK program is its simplicity. It is likely to be of short duration and to raise farm income and farm prices. Therefore, the reduction in sales to the agricultural input businesses should be of short duration, and the accompanying economic dislocation should be temporary.

At present, we are trying to assess exactly what the situation is, and to determine which types of businesses may be particularly impacted. SBA Administrator Sanders has already sent a letter to all SBA field offices, urging that banks participating in the SBA guaranteed loan program, which is a our major loan program, be particularly lenient and liberal with repayment terms or other terms on loans to businesses in the agricultural service industry that may be affected by the PIK program. In addition, my office is continuing to work with trade associations, the USDA, and other affected groups to explore ways to minimize the economic dislocations from the PIK program.

This is a new program, and we are going to continue our interest in assuring that SBA utilizes all its available programs and resources to respond to this temporary economic change in an important segment of our economy.

I would be happy to try to respond to any questions or concerns you may have, Mr. Chairman.

[Mr. Swain's prepared statement follows:]

PREPARED STATEMENT OF FRANK S. SWAIN, CHIEF COUNSEL FOR ADVOCACY, SMALL BUSINESS ADMINISTRATION

Thank you for the opportunity to testify on the impact of the PIK program on small firms.

Based upon the latest figures on the participation of farmers in the Payment-in-Kind program of the United States Department of Agriculture, the program appears to be a huge success. Using surplus crops to pay farmers for not cultivating a certain percentage of their acreage should help alleviate the large surpluses of cotton, wheat, barley, rice, and corn. Prices of these commodities fell 10–25 percent from mid 1981 to late 1982. Not only will this program help raise the income of the nation's small business farmers, but it will reduce the cost of government support of agriculture.

A successful federal program such as PIK may confer major benefits on one group in our economy, while inadvertently having an adverse effect on another group. With the possibility of diverting as much as 50 percent of the crop base in selected commodities from cultivation in a given county, the impact on several small business industries may be quite severe. As my testimony elaborates, small firms in the agricultural services industries—including soil preparation and crop service firms,

and firms which repair farm machinery—as well as manufacturers of pesticides and fertilizers may be quite severely impacted.

My statement will attempt to examine the nature of these impacts.

INDUSTRY EFFECTS

Based upon recent USDA estimates, the reduction in expenditures in 1983 in industries servicing farmers will be about six to seven billion dollars, given the anticipated acreage reduction of 36 percent,[1] or 82 million acres. These reductions represent decreases of 12 percent–15 percent in the purchases of seed, fertilizer, pesticides, and expenditures on the repair and maintenance of farm equipment. In the main, these businesses which service farmers are dominated by small firms (see table 1).

In certain industries, as in the agricultural service industries of crop harvesting, soil preparation services, and cotton ginning, small firms comprise a major portion of employment in each industry. In other industries, such as in the manufacture of fertilizer and agricultural chemicals, small firms numerically dominate the industry, but contribute about 25 percent of employment and sales. In SIC 2879, miscellaneous agricultural chemicals, for example, there were 354 firms in the Small Business Data Base in 1980, but 13 firms contributed 75 percent of the employment and sales in the industry.

In general, the effects of PIK will be greater, the lower the growth rate of a particular agricultural support industry. This is because a strong industry with recent positive growth can survive a sales decline better than one which is weak and has been in decline. For example in SIC 714—cotton ginning—the number of firms fell from 1,752 in 1978 to 1,669 in 1980 and employment fell from 13,153 to 11,463 according to the Small Business Data Base. Clearly the impact of a reduction in cotton acreage will be greater in this industry than in soil preparation services which added 46 new firms between 1978 and 1980.

TABLE 1.—EMPLOYMENT CHANGES IN AGRICULTURAL INPUT INDUSTRIES, 1978–80

SIC/Industry	Percentage of employment in small firms under 50 employees			Total industry employment		
	1978	1980	Change	1978	1980	Percentage change
07—Agricultural services	71.6	72.0	0.4	237,746	257,061	8.1
071—Soil preparation	100.0	97.9	−2.1	2,438	2,603	6.7
072—Crop services	62.0	59.4	−2.6	72,519	73,432	1.3
0722—Crop harvesting	73.1	76.3	3.2	6,993	6,452	−7.8
0724—Cotton ginning	91.2	94.3	3.1	13,153	11,643	−11.5
0729—General crop services	95.1	64.3	−30.8	2,277	2,416	10.6
287—Agricultural chemicals [1]	13.7	12.9	−0.8	67,792	71,854	6.0
2873—Nitrogeneous fertilizers	18.7	11.3	−7.4	14,479	22,697	56.8
2874—Phosphatic fertilizers	3.0	4.2	1.2	26,621	19,540	26.6
2879—Agricultural chemicals, nec	15.5	14.4	−1.1	19,108	22,550	18.0
3523—Farm machinery and equipment [2]	11.3	11.3	0	160,615	166,383	3.6
515—Wholesale raw farm materials	48.3	43.9	−4.4	165,256	193,366	17.0
5191—Farm supplies	69.8	69.2	−0.7	125,237	132,945	6.2
7699—Miscellaneous repair services	86.3	67.9	−18.4	133,319	184,499	38.4

Source: Small Business data base, 1982.

[1] January 1982 to January 1983 change was 8.1 percent.
[2] January 1982 to January 1983 change was 30.4 percent.
(Source is U.S. Dept. of Labor, Employment and Earnings.)

If there are no substitute markets for the products of these agricultural support industries, the impacts will be exacerbated. If, for example, machines have been designed only to process cotton, it is difficult to substitute for a decline in sales of cotton ginning farmers. The same is true for seed dealers. In other industries, however, some kinds of substitutes may be possible for the affected firms—such as a switch from the repair of farm equipment to the repair of other motor vehicle equipment.[2]

[1] United States Department of Agriculture, "Impact of the PIK Program on Input Industries," memo, Feb. 23, 1982.
[2] "Farm Suppliers Face Another Bad Year," Business Week, March 21, 1983, pp. 114–116.

As shown in table 1, between 1978 and 1980, the share of small firms in many agricultural support industries declined while the industries generally grew. The overall share of small firms remained about constant in the small business dominated agricultural services industry (SIC 07) between 1978 and 1980; however, the small firm share declined in several other large business dominated industries during this period.[3] For example, in nitrogenous fertilizers, SIC 2873, the small firm employment share declined 7.4 percent while employment in the industry grew 57 percent. Similarly in wholesale new farm materials—with a major share of employment in large firms, the small firm share declined 1 percent between 1978–1980 while employment in the industry grew 6 percent.

Whether small firms will fare less well in industries dominated by large firms in the PIK program is not yet possible to predict, but a number of the support industries have generally had either very low growth rates as in crop harvesting—or appear to have lost market shares to larger firms.

STATE AND LOCAL AREA IMPACTS

When the impact of the Payment In Kind program is reviewed at the state and local level, the effect of a reduction of seven billion dollars in agricultural expenditures varies. The PIK program will most affect several states whose economy is influenced by the PIK commodities.

The states which will have the major acreage reductions by crop are listed in table 2. Several states, such as Minnesota, California, Texas, and Arkansas, will have large acreage reductions in more than one crop. California will have large acreage reductions in cotton and rice, while Minnesota will sustain large reductions in wheat and corn. These data, incidentally, came from the Final Regulatory Impact analysis of the PIK program prepared by the Dept. of Agriculture.

TABLE 2.—PRINCIPAL AFFECTED STATES IN PROPOSED PIK CROP REDUCTION PROGRAMS

[Major producing States (total States affected)]

Commodities			
Wheat (10)	Corn (7)	Rice (6)	Upland cotton (14)
Idaho	Iowa	Mississippi	Mississippi
Kansas	Illinois	Arkansas	Arkansas
Minnesota	Minnesota	California	California
Montana	Indiana	Louisiana	Louisiana
Nebraska	Nebraska	Texas	Georgia
North Dakota	Ohio	Missouri	New Mexico
Oklahoma	Wisconsin		Oklahoma
South Dakota			North Carolina
Texas			Texas
Washington			Missouri
			Tennessee
			South Carolina
			Arizona
			Alabama

Source: U.S. Dept. of Agriculture, "Final Regulatory Impact Analysis," Jan. 11, 1983.

One simple way of estimating the impact of these acreage reductions on local small businesses is to examine the importance of each agricultural input industry in the respective states economy, compared to its importance in the rest of the nation.

In trying to determine whether the impact of the PIK program will be uniform across states, I have examined the importance of the affected agricultural input industries in 4 of the states in table 2 most likely to be adversely affected: California, Minnesota, Texas, and Arkansas. I can report to you that the impacts of the PIK program are likely to be felt much more in some states than in others.

For example, while crop service businesses—like corn shelling and the milling of flour—comprised .076% of all U.S. establishments in 1980, they made up .32% of establishments in Arkansas—or proportionately 4 times as much. In Minnesota, the manufacture of agricultural chemicals is twice as important to that state's economy,

[3] See, for example, "Getting Piked to Pieces," Time magazine, April 18, 1983, p. 75; Kansas City Business Journal, April 4–10, 1983, p. 10.

as it is to the U.S. economy. The implication of these statistics, therefore, is that reductions in expenditures to purchase crop services in Arkansas, or agricultural chemicals in Minnesota—are likely to have 4 times the impact in Arkansas, and twice the impact in Minnesota as in the U.S. as a whole. Therefore the burdens of the PIK program are likely to be considerably greater in individual states than in the economy as a whole.

One of the major strengths of the PIK program is its simplicity, that is, it is likely to be of short duration and to raise farm income and farm prices.

Therefore, the reduction in sales to the agricultural input businesses should be of short duration, and the accompanying economic dislocations should be temporary.

At present, we are still trying to assess the situation and determine if in fact the predicted economic dislocations will occur. As I have stated, those businesses in which fixed costs are high as a percentage of total costs are more likely to be adversely effected than where substitute markets can be found, or in those counties where the acreage reductions are more modest. These effects will vary on a case by case basis.

SBA Administrator James Sanders has sent a letter to all SBA field offices urging that the banks participating in the SBA guaranteed loan program be lenient and liberal with repayment terms on loans to businesses in severely affected areas. In addition, my office is continuing to work with trade associations and the USDA to continue exploring ways to minimize economic dislocations from the PIK program. This is a new program and we will continue our interest in ensuring that the SBA utilizes its resources to respond to this temporary economic change in the farm services industry.

I will be happy to respond to any question.

TABLE 3.—CHANGE IN SALES SHARE OF FIRMS WITH UNDER 50 EMPLOYEES, 1978–80

SIC/Industry	Sales share		
	1978	1980	Change
07—Agricultural services	77.6	75.9	−1.7
071—Soil preparation services	100.0	98.9	−1.1
0722—Crop services	83.7	88.7	5.0
0724—Cotton ginning services	95.6	95.8	0.2
0729—General crop services	94.1	72.3	−21.8
287—Agricultural chemicals	13.7	10.4	−3.3
2873—Nitrogeneous fertilizers	16.3	6.5	−9.8
2874—Phosphatic fertilizers	3.5	3.2	−0.3
2879—Agricultural chemicals, nec	14.9	14.4	−0.5
3523—Farm machinery and equipment	9.6	9.5	−0.1
515—Wholesale raw from materials	46.3	45.4	−0.9
5191—Farm suppliers	67.7	65.9	−1.8
7699—Miscellaneous repair services	86.8	63.1	−23.7
Total United States	27.8	27.2	−0.6

Source: Small Business Data Base, 1982.

Mr. TORRES (presiding). Thank you.

I am taking the interim Chair for the minute, while we await. I note that your underlying assumptions are based on the USDA projections, as you have stated.

Do you have confidence that these are correct?

Mr. SWAIN. We are not experts in agricultural economics, Mr. Torres, and so we take them at face value. As the previous witness indicated, the level of participation in the program has been much larger than the original expectations, and we would expect that as the Agriculture Department begins to get some knowledge of the actual rate of participation, they may be able to give more sophisticated figures. Whether their figures are going to change or not, I am not in a position to predict.

Mr. TORRES. I might ask you, would you provide this committee with a written report on actual effects of PIK on small agribusiness before Congress must decide on a second year; is that possible for you to do?

Mr. SWAIN. Yes, sir, we certainly would do everything that we could. We will certainly work with whatever data is available. I might add that before coming up here this morning, and in the last few days, we in our office have called the SBA offices in several major areas, including the central valley in California, some areas in the upper midwest, and I think that the reaction that we are hearing from the people that the SBA is talking to in the field is that there is a good deal of apprehension about this program, but still, it is a very open question as to what the actual dollars-and-cents impact may be. Certainly, with a few months experience, we should be able to give you a little bit more precise information later on, and would be glad to do that.

Mr. TORRES. What do you have in the way of providing any type of SBA guarantees, or rather, assistance for those people that don't have SBA loans? Any recommendations?

Mr. SWAIN. The major Small Business Administration loan program is the Guaranteed Loan Program, which the Small Business Administration usually guarantees up to 90 percent of the loan that a bank makes. That system depends very much on the market. Basically, Mr. Chairman, it depends upon people walking to the banks and saying that they are in need of a loan.

As I indicated, we are suggesting to our field staff that they work very closely with the banks they are working with now to let them know that there is a segment of the economy out there that may have some very particular needs in the next several months, because of this program, and that both in terms of making new loans to businesses that may not have needed them before, and of more immediate importance, for those businesses that have loans outstanding or who may have a cash flow problem because of the PIK program, that we ought to be as generous as we possibly can under the law at this point.

In addition to the lending programs, I have initiated some discussions with some of our management assistance offices, again, to try to determine whether we can't target some of the things that we have on line right now a little bit more to the segment of industry, with which, perhaps, the SBA hasn't had an opportunity to work before, or hasn't had a need to work with before, because the economy has been fairly constant.

Mr. TORRES. Thank you very much.

Mr. Hiler?

Mr. HILER. Thank you.

Mr. Swain, just a couple of questions. What do you think the prospects were for the agricultural support industry had a PIK program not been instituted, or something similar?

Mr. SWAIN. Well, as the figures in our statement indicate, the agricultural support industry has not been in a growth situation over the years that we have been able to track it, using our data. Certainly, in terms of the fact that some businesses might have stocked up on inventory before the program was announced, they

are going to have some temporary problems that we have to recognize.

But I think in the long term, to the extent that the program strengthens the farm industry in general, strengthens farm income—of course, farm income is the income that is spent in the agricultural service industry—over the long term, it should have a very, very beneficial effect.

Mr. HILER. If there were to be a second year of the PIK program at roughly equivalent levels to the participation this year, what impact do you think that would have on the support industry?

Mr. SWAIN. I wish I knew the answer to that question. I think that Chairman Skelton's previous question as to the timing of an announcement is a key issue to the extent that the support industries can plan on what the policies are going to be and make adjustments in their own particular business situations. Accordingly, if they have early notice, that is going to enable them to do that better, and certainly, as the Agriculture Department gains experience with the program this year, I would see no reason why they couldn't have early notice, and be able to make whatever business adjustments are appropriate, but really I wouldn't be comfortable speculating beyond this year.

Mr. HILER. Do you think, and I know that you mentioned that Mr. Sanders has recently sent notice to the SBA offices around the country to work with their financial institutions to point out, that there may be certain segments that have particular financing needs.

Is there any evidence in yet that additional financing from SBA is going to be necessary to help some small businesses ride this out who are in the agricultural-support industry?

Mr. SWAIN. There is no evidence in terms of an increase in demand, which we have seen at this point. We are really in the early phases of the program, and I would anticipate that we would follow this quite closely. We are going to see a generally more vigorous economy this year than we have over the last 2 years, so we expect a general increase in demand for SBA loan programs.

We expect to be able to handle that increase in demand. With more money in the pockets of people, both in the agricultural industry and in other industries which are going to be doing better, we will just have to wait and see where it is coming from. We expect, at this point, to be able to handle the increase in demand, and I think more importantly, from the perspective of this particular program, to attempt to play a role that is going to cushion what we think is going to be certainly a very temporary blip and hopefully will lead us into a generally more vigorous economy, both for the agricultural industry and for the service industry.

Mr. HILER. Thank you very much. I have no further questions.

Mr. TORRES. Thank you, Mr. Hiler.

Mr. Stenholm?

Mr. STENHOLM. Following up on Mr. Hiler's question just a little further, did I understand you to answer that it is your belief that you have adequate manpower, adequate resources, adequate program in force today to meet what you now believe and expect to be the needs of agribusiness, in agricultural areas that are now being affected, and what you now know about the future?

Mr. SWAIN. Yes, Mr. Stenholm. We have no reason to think otherwise at this point. It is a little bit speculative, though, because we are looking at a program that really, nobody knows too much about. The Agriculture Department can give us estimates of exactly how many farmers will be planting how many crops, how that filters out at the next level as to the service industry. We are waiting to see what the answers are, trying to anticipate them as best as we can.

Mr. STENHOLM. You are not having other than isolated delays in meeting the needs of the agribusinesses that have come forward to this point?

Mr. SWAIN. As I mentioned, before coming up here, I did try to talk to several of the Districts that have a heavy agricultural segment of the economy. What they are reporting at this point, here in the spring, is that there is a good deal of apprehension. There have been some cases in the seed industry where there have been some problems, because orders have gone down. But I am not an expert on agriculture, and not having been through a full crop cycle with the PIK program, it is awfully difficult for us to say that there either is or is not a problem.

We think that we have some good programs on the books. We think that we have some good people in the field that know their local economies are going to be in a position to respond in a helpful fashion to those situations where there is responses, is going to be helpful.

Mr. STENHOLM. I would encourage you. You have stated that that is what you are doing, and that you have sent instructions to your regional offices, to stay on top of this, because we have experienced a rather impressive situation in agriculture prior to PIK that has affected many of the agribusinesses in my District. All across the United States, not only farmers have been hurting; I have had two seed companies go bankrupt prior to PIK. Whatever the impact of PIK, which we know will be some on agribusiness, we don't know exactly as yet how much more severe; to me that is really immaterial, because we have got a very depressive situation in agriculture as a whole. I think we need to be very diligent to make sure that we are, in fact, ready to meet some of those needs, to keep some of these agribusinesses, what I like to call the infrastructure of agriculture in place, when we hopefully can get out of the situation that we are in.

Mr. SWAIN. Well, it is certainly our hope that the infrastructure of agriculture is ultimately strengthened by the PIK program, and as the previous witness mentioned, the one thing that struck me as I talked to a couple of district directors, is that there genuinely is a positive spirit out, because in several agricultural areas, this program is going to result in a drawing down of the excess commodities, which will result in some very tangible income, and stabilization of the markets.

If we can get this export situation licked and start selling overseas, then we are all going to be in much better shape. As far as the short-term effects on parts of the agricultural service industry, I think that is what the SBA is there to do, to try to be responsive of that and help them over this hump.

Mr. STENHOLM. Very well said. I guess the concern that I have, and I don't have any specifics this morning, other than to say that there has been considerable questioning of the delivering of services to small business under the SBA programs that we have in place. I think that is the one thing that I encourage you to be as diligent as possible in case that we need to make some changes, we need to hear about it. The problem with that is by the time we make the changes, it may be too late, unless we stay on top of it now, but you have said that overall, we are not experiencing that severe a problem in deliverability.

Mr. SWAIN. No, sir, and far be it from me to say that we have reached Nirvana at the SBA as far as deliverability is concerned. There is a lot of things that we can get to, but I think that we are making genuine progress, and if we are not being responsive in terms of getting out information and assistance to the people, we would like to hear about it. Obviously the SBA, somebody said to me was the world's original schizophrenic agency. We are supposed to make assistance available to people that otherwise can't get it, but also where there is a reasonable expectation of repayment.

So that is always an interesting line to try to walk, but we are going to try to keep doing the best we can, and expect you to help us with it as well, Congressman.

Mr. STENHOLM. Thank you.

Mr. TORRES [presiding]. The gentleman's time has expired. Before we excuse the witness, however, I would like to have our subcommittee counsel, Mr. Orban, ask you a question.

Mr. ORBAN. Yes, one thing, Mr. Swain; thank you very much. One thing that concerned me a little bit about your testimony was the trend that we see, and I think it is most evident in fertilizers. I use that as a specific example.

As I read your report, and you analyzed the trends in that particular industry, you indicated that there was a decline in small firm employment of 7.4 percent between 1978 and 1980, while overall employment grew by 57 percent, I believe you said.

To me, that is a clear indication that we have got a concentration in the fertilizer business, that you have got small businesses that are being swallowed up at a pretty rapid pace by large businesses, that they expand, and small businesses get smaller.

Can we conclude that from your testimony, and isn't the PIK program going to make that even more severe?

Mr. SWAIN. Well, I think that you can conclude from the figures that we provided in our statement that, in fact, the large business segment of the agriculture industry, to the extent that you define it as we have in the statistics, as businesses with over 50 employees. We could give you different statistics for over 100 or over 500, which actually might be more relevant to the question.

The large business segment in the fertilizer industry has been relatively strong over that time period, and the small business sector has been becoming less strong.

As to the impact of the PIK program on this particular industry, I am not sure what the impact is going to be. Any economic dislocation, obviously, is more difficult, many times, for small business, or at least the last 2 years have been, because of the high cost of money.

Now that interest rates are down, and there are presumably more affordable financing alternatives available, I wouldn't want to predict what the impact is going to be, but we certainly would try to follow that as best we can, as the chairman indicated, and get back to the committee when we have more current information than we have today.

Mr. ORBAN. Thank you.

Mr. TORRES. Thank you very much, Mr. Swain.

We will now ask our next witness to come forth, Mr. Harry Wallner. Welcome, sir.

STATEMENT OF HARRY WALLNER, PRESIDENT, NATIONAL FERTILIZER SOLUTIONS ASSOCIATION

Mr. WALLNER. Thank you, Mr. Chairman. I have some prepared remarks I would like to introduce into the record, and just speak off the cuff, if I may.

Mr. TORRES. Mr. Wallner, before you begin your testimony, Mr. Mavroules, our chairman, will take the chair, so I will wait until he takes the seat, and you can then begin your testimony.

Mr. WALLNER. Thanks. All right.

Mr. TORRES. Mr. Chairman, would you come forth, sir.

Mr. MAVROULES [presiding]. For the benefit of the public, I had a chance to chair this morning, and I was caught in traffic for 1½ hours. I lost my opportunity; if you will continue.

Mr. WALLNER. Thank you, Mr. Chairman.

I want to thank the committee for the opportunity to be here today. My name is Harry Wallner. I am a fertilizer retailer in Pleasant Plains, Ill. I am also president of the National Fertilizer Solutions Association and my remarks here today will be on their behalf.

The remarks I am making here today are also endorsed by the Fertilizer Organization Council of the United States, which is an organization of approximately 40 State and regional retail dealer associations. They represent approximately 80 percent of the retail dealers in the fertilizer business in the United States. I am not here to oppose 1983 PIK in any stretch of the imagination. It is now history, and we can live with it. We are going to have to live with it.

Why I am here is to try to impress upon the Department of Agriculture and you folks that if we are going to have a PIK program in 1984, there are a few things that we would like to enter into so we can better adjust to live with the situation.

The first adverse impact of the 1983 PIK program in the fertilizer industry came with such a late announcement. Poor weather, poor economic conditions in late 1982, and an uncertainty in the farm program led farmers not to apply fertilizer in the fall of 1982.

The fertilizer business was down some 22 to 23 percent in the fall of 1982 for the spring 1983 planting season. Going into December, USDA announced some sort of a program. January 11, they announced this fertilizer program, and at the same time, indicated they wanted 10 million production acres out of the feed grains. We could live with that; cut it late in the season. We had already laid

in some supplies, and had already bought some equipment to take care of the spring rush. That apparently isn't going to happen.

The weather has been good in the Midwest since I have been out there this week, and it is awfully difficult to be here.

The NFSA calls on an early announcement, by an early announcement, we think July 1, for the feed grain program. If they would give us their intentions by July 1, give us specifics maybe by August 15, I think we could cope with this situation, suppliers and retailers alike.

The second major blow in the PIK program came from moving a target. When they announced the program, in my opinion, January 11, they said they wanted an additional 10 million acres out of the feed grain program. When they announced the program, those of us in the agricultural industry knew it was sweet enough that the farmers were going to sign up in a heavier fashion.

So they ended up with about 25 million acres in the 10 to 30 program over and above the set-aside. That was 2½ times what we were told our intended target was.

I would have bet my farm that they wouldn't have opened up any whole farm bids, and yet they did, and took that on up to 39 million acres, and this was done on March 18.

By this time, it was awful late. In my particular area, the early week of March was a very good week. The farmers knew that there was a lot of signup; they didn't believe there would be whole farm bids taken, either.

I had three or four customers that put fertilizer on that first week in March on whole farm bids. That is my advantage and their disadvantage, but that was the message we were getting out of this. NFSA is asking that no whole farm bids be allowed in 1984, if they decide to have a PIK program.

Crops put in a PIK program consume the majority of the fertilizer: Corn, wheat, soybeans, rice, and cotton. A study done by Harold Reetz of the Phosphate and Potash Institute indicated of all the fertilizer applied to corn and soybeans in 1982, 94 percent of that was put on corn acres. Therefore, the impact in the fertilizer industry in the Midwestern States must have been very great.

The National Fertilizer Solutions Association took a farm poll in late March, or early April, after the total announcement was made. Our figures indicate, contrary to Mr. Ahalt's 12 to 14 percent, that the decrease in fertilizer nationally would be 21.85 percent, and the dollar volume decrease would be 25.03 percent.

I believe these numbers are conservative from my conversations, talking back home this week. We are cutting fertilizer on the fields. Every one of my retail managers told me that there is another guy that went into the whole base bid that he didn't know about. This really adds up in a hurry.

The NFSA random poll in Illinois showed a decrease of 22.26 percent in fertilizer tonnage. Another random poll done by Illinois Fertilizer and Chemical Association showed a decrease of 29.8 percent.

In Mr. Hiler's area of Indiana, there was a poll done by their association, showed 27.5 percent. A good sidelight on Indiana's poll was they asked the specific question: How many dealers would go

out of business in 1983 being in the 1983 PIK program? One dealer said that he would.

They asked the next question: If the PIK program was continued in its present form in 1984, 27 percent of those replying said they would go out of business.

John Douglas with TVA took our numbers and rounded them to 22-percent decrease, indicated that a $2 billion loss in fertilizer to the retailer in 1983. NFSA would urge that we support an export PIK program. We know there are some details to be worked out on that. We in the central part of the world away from politics don't understand all the intricacies of that, but I am sure there is a way to work a marketing program.

We endorse the long-range plan with the Soviet Union. We need a long-range plan in the USDA. If USDA had any kind of workable long-range plan, I don't think we would be here today.

The fourth thing we would——

Mr. MAVROULES. Excuse me, sir. What do you mean by long-range plan? How many years?

Mr. WALLNER. Have a long-range plan of 10 years, and a 5-year plan program updated every year. They have very good crop reporting services, and they understand where we are coming from. We would like to impress upon the USDA that we do not have any full base bids in 1984. If they do, or if they have a PIK program, a very early announcement is imperative.

Thank you for the opportunity to be here.

[Mr. Wallner's prepared statement follows:]

PREPARED STATEMENT OF HARRY WALLNER, PRESIDENT, NATIONAL FERTILIZER SOLUTIONS ASSOCIATION

I am Harry Wallner, president of the Brandt Chemical Company, a fertilizer dealership in Pleasant Plains, Illinois. I appear here today in my capacity as president of the National Fertilizer Solutions Association (NFSA). I am thankful for this opportunity to present NFSA's views on the Payment-In-Kind (PIC) program.

The National Fertilizer Solutions Association is a national, volunteer non-profit retailer-led, full service trade association with an orientation centered on fluid fertilizer but including other aspects of fertilizer retail operations. Our 1,350 plus retailers are located throughout the continental United States. Total membership exceeds 1,750 companies. Through its many programs, the NFSA provides fertilizer retailers with the survival skills necessary to profit within our economy.

My remarks on behalf of NFSA have been endorsed by the Fertilizer Organizations Council of the United States (FOCUS). FOCUS is a voluntary organization representing 40 state and regional fertilizer and agricultural chemical associations across the United States. When the state and regional members of FOCUS are combined with NFSA membership the remarks delivered today are endorsed by over 80 percent of all fertilizer dealers within the United States.

There can be no question that American agriculture has faced a severe economic crisis. Fertilizer retailers and the American farmer have faced the economic crisis together. The economic well-being of farmers is of prime importance to fertilizer retailers represented by the NFSA. The PIK concept announced last December was supported by our association as a means of providing tangible economic relief to our farmer customers. We recognized all segments of the fertilizer industry would make sacrifices as USDA moved to remove land from production. However, the sacrifices made by small businessmen operating fertilizer retail outlets has been disproportionate compared to their segments of the agribusiness economy.

Last December when USDA announced the intention to initiate a PIK program our industry supported it as the best means of granting relief to hard pressed farmer customers. The announced intention of removing 10 million acres of feed grains and wheat from production above the normal 20 percent cash set-aside program was reasonable. However, the late announcement by USDA of intentions to institute a Payment-In-Kind program brought the first adverse side affects to our

membership. Fertilizer retailers had already made sizable equipment and inventory purchases in anticipation of a brisk Spring season after a disastrous Fall season. These small businessmen were then faced with a prospect of owning equipment that could not be used as intended and storing inventory that could not be sold. An earlier announcement by USDA would have significantly reduced the adverse impact upon them.

Our association immediately sought to make officials in Washington aware of the need to consider the impact upon small businessmen represented by the NFSA when details of the PIK program were written. Correspondence was directed to USDA, the White House and Members of Congress. These communications urged that any plan adopted not unnecessarily reduce sales for an agribusiness economy already facing a recession. The NFSA asked to be included in any working groups examining aspects of the as yet unannounced details.

On Tuesday, January 11, the Reagan Administration announced details of the PIK program. Fertilizer dealers were surprised by the magnitude of the program proposed by USDA. These small businessmen knew at that point that employees must be laid off to weather the economic adversity heading their way. The NFSA quickly filed comments during the brief 30-day comment period. Once again, the association emphasized that all segments of the fertilizer industry would make sacrifices but some may sacrifice their businesses, especially if PIK were extended beyond a single year. Our concern for the economic well-being of farmers was reemphasized with the hope that any future proposal impacting agribusinessmen would be formulated only after consultation with the fertilizer industry.

Our industry finds it difficult to understand why USDA approved the withdrawal of whole farms from production on March 18. As previously mentioned, when PIK was announced in January, USDA expected 10 million acres of feed grains and 10 million acres of wheat to be taken out of production in addition to the normal cash set-aside program. Press reports originating from sources inside USDA emphasized the higher than expected level of participation that existed when the signup period ended on March 11. By going ahead and removing whole farms from production USDA could only further damage the position of small businessmen such as fertilizer retailers represented by the NFSA. On March 22 USDA announced that 41.8 million acres of feed grains and 32.1 million acres of wheat had been taken out of production.

The feed grain acres removed by the PIK program equaled 39.5 million acres of corn and sorghum and 2.3 million acres of barley and oats. The corn and sorghum reduction was 39 percent of the total acres for these crops; barley and oats 12 percent; and wheat, 35 percent. It is important to note the commodities put in the PIK program use the majority of fertilizer consumed in the United States. For example, soybeans were excluded from PIK but only use a small amount of fertilizer in comparison to corn. According to Dr. Harold Reetz of the Potash & Phosphate Institute, of the total nitrogen, phosphate and potash fertilizer nutrients used on corn and soybeans in my home State of Illinois between July 1981 and June 1982, 94 percent was used on corn. This explains why the PIK program had a disproportionately negative impact upon fertilizer retailers.

After the March 22 announcement, retailers began contacting farmer customers to determine the amount of business that would be lost. The NFSA undertook an extensive industry survey to determine the overall impact. When results of our poll are considered in conjunction with the decreasing demand, both domestically and internationally, for fertilizer that existed even before announcement of the PIK program, the adverse impact upon small businessmen is placed in perspective. Please remember this is a poll taken by the retailer, showing the real situation at the final consumption point.

Retailers across the country report an expected 25.03 percent decrease in dollar volume during crop year 1983 due to the PIK program. A 21.85 percent decrease in fertilizer tonnage was also anticipated because of PIK. If the PIK program were continued in crop year 1984 in its present form, respondents felt that the decrease estimated for 1983 would continue at the 22.05 percent level when compared to 1982 value.

In my home state of Illinois the impact of PIK has been more severe than the national average gained from the NFSA retail poll. Returns indicate Illinois fertilizer retailers expect a 25.59 percent decrease in dollar volume during crop year 1983 due to the PIK program. A 22.26 percent decrease in fertilizer tonnage is anticipated. This compares with a 25.03 percent drop in dollar volume nationally and a 21.85 percent drop in tonnage. Illinois dealers expect a 23.65 percent decrease in business during the Spring season. The decline is expected to continue this Fall with a 24.55 percent decrease in business. These figures are conservative when compared to an

independent survey conducted by the Illinois Fertilizer & Chemical Association. It shows a projected fertilizer tonnage decrease of 29.80 percent. A decline of 27.5 percent was projected for the neighboring state of Indiana in a survey conducted by the Indiana Plant Food and Agricultural Chemical Association. These numbers are higher because they report a statewide sampling as compared to the random poll taken by the NFSA.

USDA Assistant Secretary William Lesher was quoted in an interview with Agrichemical Briefing this month as predicting a 5–7 percent decline in seed, fertilizer, and pesticide sales. This was after the official USDA forecast of a 12–14 percent decline was released. The NFSA feels both of these projections should be revised.

For purposes of calculation the fertilizer tonnage decrease estimated by retailers was rounded off to 22 percent. Consumption and dollar sales projections were then prepared by Dr. John Douglas, Tennessee Valley Authority (TVA) National Fertilizer Development Center, based on this estimated 22 percent fertilizer tonnage decrease. Based on the projections by respondents, total plant nutrient consumption would fall to 16.67 million tons in 1983, compared to the official USDA projection of 19.00 million tons, in relation to the 21.51 million tons reported in 1982. Estimated fertilizer sales of $8.75 billion in 1982, would fall to $6.78 billion in 1983, under the retailer survey estimate compared to the official USDA projection of $7.60 billion. NFSA Executive Vice President, and CEO, David K. Murray feels the projected decrease in retail margins by fertilizer dealers is the strongest indication of the impact PIK will have upon NFSA members. I agree this represents the bottom line impact of PIK upon fertilizer retailers.

Allow me to reemphasize at this point that our association is not opposed to the PIK concept. I am not here to oppose the 1983 PIK program that is now history. However, we feel the impact upon small businessmen represented by the NFSA was not properly gauged when USDA decided to accept a PIK program of the magnitude undertaken. If PIK were extended a second year at anything near its present level it would certainly go beyond seriously impacting economically marginal dealers and force many of the high quality smaller to medium size fertilizer retailers out of business. Therefore, our association has formulated the following proposals and submitted them to USDA as regards any commodity programs being considered for 1984.

The NFSA has endorsed efforts to enact the Agricultural Export Equity and Market Expansion Act of 1983 (S.822) as the most immediate way to alleviate surplus grain stocks without having to institute a second year of domestic PIK. This "export PIK" bill would allow the Commodity Credit Corporation (CCC) to offer surplus stocks of commodity for each $1 above the export target of commodities purchased by an importing country. The association has additionally called for passage of Senate Resolution 95 calling upon President Reagan to initiate negotiations on a new long-term agreement on agricultural trade with the Soviet Union. The NFSA points out that fertilizer retailers could not withstand the impact of a second year of PIK in its current form. However, if USDA decides to proceed, an early announcement no later than July 1, of any intentions regarding the 1984 version of PIK is essential. NFSA is adding its firm opinion that if PIK is continued in 1984, USDA must not allow whole farm bids and recognize the current high level of allowed retired acres is unacceptable to fertilizer and agricultural chemical retailers.

Allow me to close by noting that the PIK program has given much needed economic relief to the American farmer. We feel the economic well-being of small agribusinessmen should be coupled to that of their farmer customers. Future proposals, such as the PIK program, should be formulated with the best interests of both in mind.

Mr. MAVROULES. Thank you very much for being with us.

I don't feel that we have any prepared questions of you at this point, because your testimony came in this morning.

However, I am going to ask my colleagues if they have any questions.

Mr. Hiler?

Mr. HILER. Thank you very much.

Mr. Wallner, in that sample in Indiana, that survey that was taken, how many would have responded to that?

Mr. WALLNER. I want to go from memory. I think there was 325 of those mailed out, and 155 returned.

Mr. HILER. Out of those 165, 27——

Mr. WALLNER. Twenty-seven-percent said that they would go out of business.

Mr. HILER. Forty-five.

Mr. WALLNER. About 45 of those that responded.

Mr. HILER. And so that principally, you would be of the opinion that most of your colleagues in the business will weather out 1983, and have some problems maybe with the way that PIK was implemented, and that there was a shortage of time, and you have inventories to build up and some new equipment to purchase.

But, basically you support the PIK concept. However, 1984 is a little bit of a different story, that if PIK were instituted in a similar fashion, it could be a real disaster for your industry.

Mr. WALLNER. Yes. We feel that PIK 1983 was a necessary evil, and we support PIK 1983. If you are going to have a PIK 1984, do it early. Tell us their intentions early. Tell us what their target is going to be; if they want 40 million acres set aside, tell us that, so we can plan. That is where I am coming from, on a long-range plan from the Department of Agriculture.

Mr. HILER. Have you found—and maybe you yourself have been in this particular circumstance, but in terms of some of the fertilizer people who maybe had taken on some debt with the assumption that as they worked down their inventories over the course of the season—that the cash flow would take care of that?

Now, of course, the cash flow may not be there to that extent. Have the people in your district found that these banks have been understanding of this? Do you have to finance a lot of your inventory through borrowing, or is it something you can do through cash flow?

I don't know very much about your business.

Mr. WALLNER. Most of the inventories are financed through borrowers, and this is primarily a 6-month borrowing process. Fill up in August before the fall season, pay that back in November, December, fill up in January for the season, pay that back in June or July. The magnitude of borrowing, I would estimate that the average dealer borrowing today is somewhere between $400,000, and $500,000.

Mr. HILER. $400,000 to $500,000?

Mr. WALLNER. Yes.

Mr. HILER. Are the banks understanding of the dilemma that you are in right now, or not?

Mr. WALLNER. Well, yes, they are understanding, but they also want to be repaid. They want you to show the ability to repay, and the net debtability today, with narrowing margins, due to the excess supply of fertilizer is pretty difficult.

Mr. HILER. Do people in your industry very often look to the SBA for financing, or has that not really been an avenue that you all have gone?

Mr. WALLNER. Yes, some of them do, but that is kind of the last-chance financing.

Mr. HILER. So that, would you think that, if there were a PIK 1984, would you think that there would need to be a special consideration given by SBA to businesses like your businesses, or do you just think that if it is done in a reasonable fashion, with some well-

thought-out plans beforehand, that you can weather the storm all right?

Mr. WALLNER. I think with the proper early announcement and reasonable plans beforehand, we can survive. Sure, there is going to be a few people that need the SBA loans, but we have to have the right to fail as well as succeed. We are not asking for a handout.

Mr. HILER. I understand that.

I appreciate your testimony, and I hope you have a good trip back to Illinois, and I hope the weather is good back there next week.

Mr. MAVROULES. Mr. Stenholm?

Mr. STENHOLM. Thank you, Mr. Chairman. Let me say to you, I commend you for holding these hearings to get the small business effect of PIK. I serve on the Agriculture Committee as well as the Small Business Committee, and I appreciate the opportunity, even though I am not on your subcommittee, to sit in this morning and participate. I would want to ask one question of you, as far as your 1,350 members, how much SBA involvement your membership has, and whether there are any problems or any recommendations or observations you might share with this committee in regard to SBA, and its involvement or lack thereof in the problems your members and dealers are experiencing.

Mr. WALLNER. I believe that most of our members are independent business people, and very small involvement with SBA, probably less than 2 or 3 percent of them involved in SBA loans.

Mr. STENHOLM. I fully concur with your plea for early announcement. I think most every farmer and agribusinessman continues to want to have early announcements. That is one of the things that seems to be the elusive goal, but it is one that we want to pursue.

I am curious. The criticism of the whole farm base is a valid one, and I think we can see, in hindsight, where we may have created some problems. I wonder what the alternative would have been, with the tremendous supplies that we had built up, if we had not taken the whole farm bids and not gotten the kind of participation. Do you not believe that we would have faced another year or two of the problems that we were already facing? Or do you have an alternative that you would have proposed?

Mr. WALLNER. Well, being selfish, the whole farm bid was just above and beyond everybody's expectation of the goal acres that we were told they wanted out of production. Had they told us they wanted 40 million acres out of the feed grain program, we would have adjusted to that up front. But when they tell us they want 10, and get 25 in the 10 to 30 program, and change that target again on the whole base bid, it is pretty hard to hit a moving target.

So if you tell us up front what your program is, we would live with it.

Mr. STENHOLM. So your basic criticism was not on the final result, it was that you were not told early enough so you could plan for it.

Mr. WALLNER. That is correct. No, I think the whole base bid is a 1-year quick-fix, and we can suffer that. Don't go back to 100-percent production again next year, or we will be back in a PIK program in 1985.

Mr. STENHOLM. That was my final question. Your recommendation as to what we ought to be looking at next year. I gather you are saying a smaller reduction, spread it across maybe—if we are going to have PIK–2, whatever we are going to call it, PIK 1984, that we determine the amount that we need, announce it early, and then spread it equally across every farm, every county, every State that is equally on the base, as we can, rather than allow it to be concentrated.

Mr. WALLNER. I would recommend that strongly.

Mr. STENHOLM. I agree with you, too.

Thank you, sir.

Thank you, Mr. Chairman.

Mr. MAVROULES. Thank you.

Thank you very much, Mr. Wallner, for testifying this morning.

Mr. WALLNER. Thank you.

Mr. MAVROULES. At this point, representing the Fertilizer Institute, we have two witnesses. First is Harvey Strothmann, who is vice president of MFA, Inc.; and L. W. Lohry, who is the president of Nutra-Flo Chemical Co.

I invite you to testify, please.

PANEL CONSISTING OF HARVEY STROTHMANN; AND L. W. LOHRY

TESTIMONY OF HARVEY STROTHMANN, VICE PRESIDENT OF PLANT FOODS, MFA, INC.; ACCOMPANIED BY DALE ANGEL, DIRECTOR OF LEGISLATIVE RESEARCH AND POLICY DEVELOPMENT

Mr. STROTHMANN. Mr. Chairman, I am Harvey Strothmann, vice president of plant foods, for MFA, Inc., and also one of 39 directors of the Fertilizer Institute.

To my left is our director of legislative research and policy development for MFA. MFA, Inc., is a regional farm cooperative headquartered in Columbia, Mo. We supply over 200 individual retail outlets in Missouri and the adjacent States, and I feel we are in an ideal position to observe, and to participate and experience many of the problems that are discussed here today.

The significant enrollment in this PIK program has been characterized by the Secretary himself as breathtaking and beyond his wildest expectations. It obviously receives this status because, frankly, gentlemen, it was the only Band-Aid left to keep our farmers from bleeding to death.

They needed it to survive, and we support it. We need it to keep the foundation of our food production from crumbling. We also need to recognize that it is ill-advised to create irreversible damage to those within the service area and who need to remain viable in order to be able to continue to serve the needs of the patient, or our farmer.

The USDA initial assessment of this program, issued in April, projects fertilizer use decline of 12 to 14 percent from 1982. We have heard that figure discussed here this morning. However, the real impact comes when we recognize that low farm prices had already caused a nationwide decline in 1982 of 10 percent in fertilizer

use from the previous year, and in my own home State of Missouri, it was worse, with a decline of 20 percent.

Now, add on to that the 12 to 14 percent of the effect of PIK program, and we see that we are getting up to 25 to 35 percent decline in 2 years in our fertilizer industry.

We need to focus our attention on this small guy in between, perhaps best described as a farm supply vendor, those thousands of individual small retailers, whether they are cooperatives or whether they are independents, who service this massive agriculture enterprise.

I will limit my comments only to fertilizer. In order to service agriculture on a timely basis with the massive needs of fertilizer alone, much planning is needed in advance. We need to start ahead of time, have a lot more at stake than just a "hole-in-the-wall" office.

First, they have untold millions invested in storage facilities. You cannot move phosphate from Florida or potash from Canada, or nitrogen from Louisiana to the breadbasket of the Midwest overnight, and especially not into the many rural areas which have experienced rail abandonment. It is a year-round proposition.

Someone must and does provide this fertilizer storage. Most of this is specialized and expensive and cannot readily be used for something else. All these facilities include some type of mixing or blending equipment. In my home State, we have 634 of them alone. Many of them have anywhere from $50,000 to $200,000 invested in this type of storage facility. That is just the beginning.

They also have various specialized application equipment; specialized spreader trucks. I will summarize that by saying that these fertilizer vendors that supply this fertilizer have in the neighborhood of $200,000 to $1 million in capital investment. We are not talking about inventory here; we are talking about capital investment, and the typical one, in the neighborhood of $500,000. This equipment depreciates fast, some of it with schedules as low as 5 years, not so much from the volume of fertilizer that we might put through it, but from the corrosive nature of fertilizer itself. In other words, gentlemen, the equipment deteriorates even if it isn't used.

I don't expect to spend much time here talking about the advanced planning. I think that that has been fairly well-covered, but it does take tremendous amounts of advanced planning with transportation equipment.

I would like to refer just to one example that I am very familiar with. In order to move anhydrous ammonia to the use points, we consolidate the needs of many of our dealers, and we lease ammonia jumbo cars to move this material. Now, this needs to be done the summer before. We contracted for ammonia cars last summer, and about a third of those are now standing on the siding filled with ammonia because there is still a question whether we will need it.

The point is that most of these costs in storage facilities, blending facilities, and this specialized application equipment, are not reduced with reduced volume. The vendor cannot sell part of this storage, and he can't use it for anything else, or get out of a part of his payment to the bank because the Government has now decided

to reduce the need for his services by 15 or 20 or 25 or perhaps a third of the volume in 2 years. His competitor doesn't want it either because he is in the same fix. If we would not truly need him again, and possibly real soon, it would be an entirely different matter.

The erratic off-again, on-again, all-out production, or reduced production, PIK, or in some cases, produce for PIK, and mostly all last-minute decisions, has created some very drastic side effects, I would like to move to some recommendations, gentlemen.

First, some type of temporary relief is needed for these dealers. As a minimum, financial institutions, especially the farm credit system, should continue meeting the credit needs of the supply vendors, who, through no mismanagement of their own, are now facing undue financial burdens. Outstanding loans of businesses adversely affected by PIK should be extended at reasonable rates until farm prices and farm income improves.

Second, dedicated effort must be given to developing a much more stable agricultural policy and agriculture economy; that eliminates the need for a PIK Band-Aid, and one that we can manage.

MFA has repeatedly called upon the administration to implement an adequate paid diversion program as already authorized by Congress to improve farm prices. It would have been less costly to the Government, farm prices would have been more reasonable, PIK would have been unnecessary, and the side effects on all agribusiness would have been much less severe if adequate paid land diversion programs had been implemented during the past 2 years. It seems that we crossed our fingers and hoped it would go away.

Third, the real answer lies in finding substantial and dependable markets for agricultural production. It is obvious that too much emphasis has been placed on reducing production and not on expanding demand.

The blended credit program and the subsidized flour sales are certainly steps in the right direction, at least a start. We urge the Agriculture Credit Revolving Fund be adequately funded and the administration be required to use the funds as needed to increase farm commodity exports.

We also feel that export PIK has a place. If it should then be necessary to cut back production in order to bring supply more in balance, we feel our Government ought to work more closely with the governments of major exporting competitors to effect a reduction in their production, also.

It is obviously unfair to the American farmer and his suppliers to bear the brunt of production curtailments.

In looking for increased world markets for agriculture production, I also feel that attention should be given to upgrading these products and sell corn flakes and something else, rather than just corn.

Adopting the above measures, we feel, would do much to improve the prices and the stability of agriculture, Mr. Chairman. You and your committee are to be commended for holding this hearing to explore these effects of PIK on small business. We thank you for the opportunity of expressing our views.

[Mr. Strohmann's prepared statement follows:]

PREPARED STATEMENT OF HARVEY STROTHMANN, VICE PRESIDENT OF PLANT FOODS, MFA, INC.

I am Harvey Strothmann, vice president of plant foods for MFA, Incorporated, and also one of thirty-nine directors of The Fertilizer Institute with headquarters here in Washington, D.C. MFA, Incorporated is a regional farm cooperative headquartered in Columbia, Missouri which supplies over 200 individual retail outlets in Missouri and adjacent states. We are in an ideal position to observe, as well as experience, many of the problems to be discussed here today.

The significant enrollment by the American Farmer in the Payment-In-Kind (PIK) program has been characterized by the Secretary of Agriculture as "breathtaking", and beyond his "wildest expectation". This program obviously achieved this status because it was the only band-aid left to keep our farmers from bleeding to death. They needed it to survive. We all needed it to keep the foundation of our food production from crumbling. We support it.

Very simply, what would happen to hospitals, the doctors, nurses, and the multitude of support services if 25 percent of the patients suddenly got sufficient bandaids from the government and at least for a year didn't need the hospital services. Would they still be there when needed?

We have all gotten caught up in saving the patient because all of us recognize we so desperately need our food producer that we have not given serious attention to the side effects of the treatment. We also need to recognize that it is ill-advised to create irreversible damages to those within the service area and who need to remain viable in order to be able to continue meeting the needs of the patient.

Explanations of many of the side effects have been passed over with such comments as, in the words of the Secretary, "there's a down side" to the program or "the suppliers are not going to sell as much this year". And this follows on the heels of an already depressed economy that has had these same suppliers already struggling for survival.

Economists develop figures and make projections. We continue to hear about acres and percentages. In the fertilizer business we hear estimates of reduced nutrient tons and reduced product tons. Obviously if we are going to recycle a part of our farm production, we won't need as many imputs. The USDA "Initial Assessment of the Payment-In-Kind Program" issued in April projects the fertilizer use decline of 12–14 percent from 1982. Chase Econometrics estimates this decline at 12–17 percent. You may have seen or heard these percentages, but the real impact comes when we recognize that low farm prices had already caused a nation-wide decline in 1982 of 10 percent in fertilizer usage from the previous year or now a 2 year decline of 22–24 percent. My home state of Missouri was even worse with a 1982 decline of 20 percent which could now, with PIK, become as much as one third less than two years ago.

But even this is often pushed aside with comments that fertilizer suppliers are big companies or conglomerates; and yes, they'll have a hard time and may need to close a plant or two and lay off a bunch of workers to cut cost, but they will survive somehow. My purpose here today is not to debate percentages or tons or the viability of major fertilizer suppliers. Instead, we need to focus attention on the small guy in between, perhaps best described as the farm supply vendors—the thousands of individual small retailers, whether a cooperative or an independent dealer, who service this massive and efficient agricultural enterprise.

One who is not familiar with this total production supply chain cannot comprehend the logistics and investments involved. I shall limit my comment to only one area, that of fertilizer.

It is not uncommon to read about interruptions in some manufacturing such as an automobile because the production of some small part is interrupted for one reason or another; or to experience in our private lives some delay in a repair job and have it explained as, "until we get the part in".

Gentleman, when farmers need to plant they can't wait to get the part. There aren't really very many planting days in the year. For some crops there are very few, and sometimes none if the weather decides not to cooperate. Missing the cutoff date for planting does not mean that the farmer can plant the following week. Rather, it means next year. My point is that in order to service agriculture on a timely basis with the massive needs of fertilizer alone, these thousands of vendors up and down the road have much more at stake than just a "hole in the wall" office.

To begin with they have untold millions invested in storage facilities alone. You cannot move phosphate from Florida, potash from Canada or nitrogen from Louisi-

ana into the bread basket of the Midwest overnight, and especially not into the many rural areas that have experienced rail abandonment.

Someone must and does provide this fertilizer storage—the guy in between. Most of this storage is specialized and expensive, and cannot readily be used for something else. Additionally, all of these facilities include some type of mixing or blending equipment to prepare the special analysis the farmer may need for his specific crop.

According to the Missouri Fertilizer Control office, in Missouri alone, there are 485 such facilities for dry blending, and 149 for liquid blending for a total of 634. Investments for this alone can range from $50,000 to $500,000 with most locations over $200,000. Additionally, 325 of these locations also have special high pressure storage for the nitrogen fertilizer, anhydrous ammonia. That specialized storage alone can range from $25,000 to over $100,000. But that's just a beginning.

In most cases these in between businesses also furnish various specific and specialized application equipment suitable only for the application of fertilizer. The various pieces of application equipment can range from $2,000 per unit to well over $80,000 for a specialized truck applicator. For most to provide the service required in a short period of time, several such pieces of equipment are necessary. It is not uncommon for a single location to have another $100,000–$300,000, and some much more, invested in application equipment alone. This equipment depreciates fast, some with depreciation schedules as low as 5 years, not so much from the volume throughput, but rather from fertilizer corrosion. In other words the equipment deteriorates even if it isn't used.

Up to now, we haven't yet talked about the advance planning and sometimes contracting necessary to get the product hauled to the storage facilities. It takes arrangements for thousands of trucks, some of which must be contracted in advance; rail cars and tanks cars, some of which must be leased at least a year in advance; it takes arrangements for credit to get suppliers to ship. Some of these in between vendors have additional equipment for this purpose, or need to enter into trucking contracts or rail leases to get the job done. It took a lot of advance planning many months before anyone ever heard of PIK; and to get ready for 1984, the same people will need to begin planning and contracting in July.

As one example, in order to get anhydrous moved on time in the area we serve in Missouri, the needs of a number of our individual vendors are consolidated and jumbo rail cars are leased to transport this material. This must be done during the summer months prior to the spring season. Right now, we have about a third of these cars standing on the siding because of reduced sales potential. This cannot be attributed to mismanagement. How is the small vendor supposed to survive with such uncertainty?

The point is that most of these costs in storage facilities, blending facilities, or specialized application equipment are not reduced with reduced volume. That vendor can not sell a part of his storage or a part of his equipment or get out of a part of his payment to the bank because the government has now decided to reduce the need for his services by 15 or 20 or 25 percent, or perhaps a third of the volume in 2 years. His competitor doesn't want it either because he is in the same fix.

If we would truly not need him again and possibly real soon, it would be an entirely different matter. Our erratic off again, on again; all out production or reduced production; PIK or produce for PIK; and mostly all last minute decisions has created some very drastic side effects.

In summary, we fully support the PIK program. Our farmers need it for survival. At the same time, a very large portion of the same farmers have equity in their cooperative supply vendor, or are highly dependable on the services of such vendor whether independent or cooperative. These are keys to the efficiency of our agriculture production and must survive as much as the farmer.

Three broad recommendations come to the forefront.

First, for immediate consideration, the government induced reduction in sales volume being experienced by most of these individual supply vendors is not a product of their mismanagement or one for which they could have planned. Many have substantial capital investments in specialize storage and equipment not suitable for any other purpose, and which is not obsolete but will be needed in the future. Many have financial commitments with substantial interest cost for these facilities. Some type of temporary relief in these cases must be developed.

As a minimum, financial institutions, especially the Farm Credit System, should continue meeting the credit needs of the supply vendors who, through no mismanagement of their own are facing undue financial burdens. Outstanding loans of businesses adversely affected by PIK should be extended at reasonable rates until farm prices and farm income improve, and production returns to more normal levels.

Second, for the future, dedicated effort must be given to developing a much more stable agriculture policy and agriculture economy that eliminates the need for a PIK band-aid for which no one can plan or manage, and for which many segments of the economy suffer.

MFA has repeatedly called upon the Administration to implement an adequate paid diversion program as authorized by Congress to improve farm prices. Yet the Administration continued to operated farm programs at near minimum-levels. Only when the farm economy deteriorated to a crisis situation, and stocks of agriculture production had built to burdensome levels, did the Administration take effective action by implementing the PIK program. It would have been less costly to the government, farm prices would have been more reasonable, PIK would have been unnecessary and the side effects upon all agribusiness would have been much less severe if such adequate paid land diversion program had been implemented during the past two crop years. Preventive medicine is preferable and certainly less costly than extensive remedial surgery.

Third, the real answer lies in finding substantial and dependable markets for agricultural production. Too much emphasis has been placed upon reducing this production and not enough emphasis on expanding demand. The blended credit program and the subsidized flour sales are steps in the right direction, at least a start. In addition, we urge that the agriculture credit revolving fund be adequately funded and that the Administration be required to use the funds as needed to increase farm commodity exports.

If then it should still be necessary to cut back agriculture production in order to bring supply more in balance with demand, we urge our government to work more closely with the governments of major exporting competitors to effect a reduction in their production also. It is obviously unfair to the American farmer and his suppliers to bear the brunt of production curtailments with no restraints on other major exporting countries.

When looking for increased world markets for our agricultural production, such activity should not be restricted to grain alone, but also in the many additional areas of upgraded agricultural products such as processed meat and grain.

Adopting the above measures as proposed would do much to improve prices and income for the farmers and bring stability to agriculture.

Mr. Chairman, you and your committee are to be commended for holding this hearing to explore the effects of PIK upon small business. We thank you for the opportunity to express our views.

Mr. MAVROULES. Thank you very much for your testimony.

I think perhaps before we ask any questions of you, we should take the testimony of Mr. Lohry. It was my understanding that he is one of your constituents, Berkley; maybe you would like to welcome Mr. Lohry.

Mr. BEDELL. Yes, he is, Mr. Chairman, and I appreciate very much his being here.

Mr. MAVROULES. Very good.

Mr. BEDELL. As you know, I represent a very agricultural area, and this is a very important issue to my district.

Mr. MAVROULES. Very good. Thank you.

Mr. Lohry, would you continue?

TESTIMONY OF L. W. LOHRY, PRESIDENT, NUTRA-FLO CHEMICAL CO.

Mr. LOHRY. Good morning.

My name is Bill Lohry. I am president of Nutra-Flo Chemical Co., which is a family-owned corporation. It has been in existence for 55 years.

We manufacture and distribute fertilizer, into a network of independent dealers, in the States of South Dakota, Nebraska, parts of Minnesota, Iowa, Kansas, and Colorado. We are heavily involved in the fertilizer business, and I would like to present our statement on record, and summarize in the interest of time.

Mr. MAVROULES. Without objection.

Mr. LOHRY. Well, we have endured in our 55 years of history floods and fires. We have had tanks collapse and lose 10,000 tons of fertilizer; we have fought embargoes, and high interest rates; we have battled against imports of nitrogen from Mexico and the Soviet Union. Today I wanted to present my idea of why this PIK is probably the greatest catastrophe that our company has ever experienced, and also the greatest challenge to survival.

I really want to present two ideas to you.

I want to first impress the subcommittee on the importance of the input supplier. Tell you some facts that maybe you are not aware of. As you know, one American farmer is said to feed 78 people. When I started business, one farmer fed 15 people, an increase of fivefold. The output per hour has increased sixfold. His yield has increased from 38 bushels in 1950 when I started, to 114 in just the last year.

The question comes up, my gosh, have we developed a superfarmer who has increased his efficiency by such a great percentage? Let's put the facts into perspective.

Actually we haven't. We have developed a superior and sophisticated input industry. For every farmer there are five people involved in the support industries, developing new hybrids, finding new chemicals to control weeds that save him time, that save him cultivation, and developing new machinery that can substitute.

In the fertilizer industry, for example, we have educated the farmer how to use our products. I myself have spent time in hundreds of meetings with farmers—literally hundreds over the years—telling farmers how to properly use our products, and how to increase their efficiency. So we have developed, over the years, a team of input suppliers and farmers. Together the team makes up what we call modern American agriculture. Without one, you don't have the other.

If we don't protect the input supplier, we could destroy the system that made American agriculture what it is. Certainly, the PIK program protects the farmer, but it is also important to protect the financial integrity of the input supplier.

You see the efficiency of the farmer has been increased because our local dealer, at the local level, is now fertilizing and controlling weeds for the farmer, allowing him time to do other things. So the apparent efficiency has increased. So I want to bring that point out. I think that is a very important point that some of us are not aware of.

Second, I would like to talk about why the PIK program has been such a catastrophe to the fertilizer industry.

Basically, three reasons: The first, of course, when you wake up on March 22, find 35 percent of your market is gone, your immediate thought is, "Well, how do I cut expenses?" Well, what do you do? Variable expenses have to be cut, that which is labor. But if you find that that is not enough to make up for the reduction of sales of 35 percent. So, the number of acres that was taken out of production, of course, is the prime problem. But there are two more reasons that I think the PIK program has been disastrous. The second is the untimeliness, the inopportune time that the program was announced to our industry.

In addition to that, the misleading projection by the USDA. I am going to develop that subject just a little bit later.

The third reason is the taking of whole farm bids which is a disastrous blow to our industry. Now, to understand, first of all, I won't go into the reduction of acres. My own feeling is that we don't produce too much; we don't sell enough. I think that we ought to vigorously improve our marketing and sales efforts. I don't think that we are doing what we should.

Now, the Government has to help us in marketing this product we are producing. We are very efficient producers, the very most efficient in the world, but we need help in marketing.

But, No. 2, I want to explore No. 2, which is the inopportune time of announcement of the program. Harvey brought out the fact that the fertilizer business is a particularly sensitive industry to an announcement of this kind, that was made at the wrong time, because we are supply and demand oriented, and very vigorously competitive.

To understand our industry, we distribute 50 million tons a year of nitrogen, phosphorous, potassium, sulphur, zinc, or whatever. Now, the distribution system that we have is the envy of the world. For 10 months, we manufacture and ship 50 million tons to the point of usage, which could be to Iowa, Nebraska, to a little local dealer, or to a large terminal.

We make plans ahead based on projections that we get from USDA and others. In 1982, we made plans, and started to move fertilizer to the point of usage, as we always do, based on historic take patterns.

Now, the fertilizer moves by pipeline, by barge, by truck, by car, brought out to dealer places or terminals. When the announcement of PIK came in January, we were led to believe that about 17.9 percent reduction in corn acres was to take place.

We adjusted our goal of fertilizer, and our manufacturing, slightly, but 17.8 percent we could handle, no problem. March 11, after the sign-up, we had a sickening feeling in our stomach because we knew there was a great deal of participation. We had already moved a great amount of fertilizer into the marketplace, but we were afraid, on March 11, with a great sign-up, we had moved too much fertilizer into the wrong place. Well, on March 18, is what I call the Pearl Harbor Day of the fertilizer business, because on that day, they opened up the whole-farm bids, or the whole-base bids, as the USDA prefers to call it.

When they took the whole-base bids, they increased by a great number, by a great percent, the number of set-aside acres over their projection. We knew then that that was a sickening blow, that we had moved too much fertilizer into the wrong place.

May I enter a new chart into the record to simplify my discussion?

Mr. MAVROULES. You may. Without objection, it is so ordered.

[The information referred to above follows:]

A question for the Subcommittee and the USDA - Why did the USDA open up the PIK program to whole base bids when on March 11, the sign up indicated that projected acreage reduction had already been reached?

CORN AND SORGHUM SET ASIDE ANALYSIS

	1/a. 1982 Crop Year Corn & Sorghum Harvested Acres	2 Jan. 11, 1983 USDA Impact Projection - Harvested Acres After PIK/a	3 March 11, 1983 After ARP + PD + PIK (10-30%) Sign-Up Harvested Acres	4 March 18, 1983 After Whole Base Bids - Projected Harvested Acres	5 March 22, 1983 Combined Effect (Col.3+Col.4)
Acres (Mil Acres in Production	86.6	71.2	69.8	60.7/b	60.7
Acres Set Aside (Mil Acres)	--	15.4	16.8	9.1	25.9
% Reduction Compared to 1982 Crop Year	--	17.8%	19.4%	29.9%	29.9%

SUMMARY - USDA HAD REACHED ITS PROJECTED ACREAGE REDUCTION BEFORE ALLOWING WHOLE BASE BIDS.

/a USDA Final Regulatory Impact Analysis - January 11, 1983.
/b From USDA "An Initial Assessment of PIK Program" - April 1983.

Mr. LOHRY. It is a complicated subject, but I am going to try to do it in just a few minutes' time and maybe at some point, you can check the figures at your leisure. Because this is the crux of the problem that will, in the end, destroy many of our input industries.

The question I would like to ask the subcommittee and the USDA is why did the USDA open up the PIK program whole-base bids on March 11 when they already—the sign-up on March 11—indicated that the acreage reduction had been reached that they projected in January—do that over again.

Now, if you would go down on the first column, these are harvested acres, and there is a lot of confusion between harvested acres, planted acres, base acres. But 86.6 is what they told us in 1982, the corn sorghum. They were only talking about corn sorghum, was planted in 1982, and harvested.

On January 11, someone in the USDA must have known that—excuse me. On January 11, they projected 71.2 million acres would be planted if the program was put into place and was effective.

On March 11, after the sign-up, the ARP, plus paid diversion, plus the 10-30 PIK, someone in the USDA must have known that there would be 69.8 million acres. In other words, they had reached their projected goal. The goal that they had led us to believe that they were trying to reach.

But on March 18, they asked for whole farm bids, and they took an additional 9.1 million acres out of production. In the State of Iowa, for example, 25 percent of the set-aside was whole farm bids, and in the State of Illinois, 50 percent.

The effective acres of corn sorghum then was reduced to 60.7, which is 29.9 percent set-aside, rather than 17.8 percent they led us to believe, and if you relate that to fertilizer usage, it is a tremendous disaster.

You might ask, why are whole-farm bids a disaster? Let me tell you why. Whole-farm bids, or whole-base bids, took the better farmer, the better land, and in our area, the irrigated land.

When you take those people out of production, you never won. Of course, you take the best customers we have, you take the most innovative farmer, the one that uses the most fertilizer, the most pesticide, and does the best job of farming, has the most skills in management. We really have a tremendous effect upon our business, and so the reduction is more than just the acreage taken out.

So, in summary, I just want to say that as far as the PIK program, we knew that something had to be done, there are other questions that you asked in your list there, about the projections, and as far as we are concerned, the projections by the USDA for 12 to 14 percent on a national basis, we believe is too conservative. We think 16 to 19 percent would be more realistic. But the problem is a regional basis; we have an area like Iowa and Nebraska where the decrease in fertilizer usage could be 25 to 50 percent.

I want to bring out another point, that people say, "Well, why don't you just hold the inventory over until next year?" There are two reasons you can't do this in a free market system. It costs 20 percent a year to carry inventory over. But the real problems in carrying the inventory over, the problem is that chaos is created in the pricing structure. Suddenly, we have dealers that are scram-

bling, trying to dump the product to each other. We are manufacturers. Just last Monday, the ammonia price dropped $5.

The retail price on ammonia, for example, is less than the producer cost. Think of that. It is because of the sudden shock wave thrown into a free market, competitive system by the Government agency.

We needed an early announcement so that we could plan ahead and prevent this problem. And of course, in summary, we don't think we should take whole-base bids. I personally don't believe that we should tell a farmer, "Go play golf, and take off a year on sabbatical." We take the best farmer out of our productive system.

In summary, we should aggressively seek to improve foreign markets.

[Mr. Lohry's prepared statement with attachments follow:]

PREPARED STATEMENT OF L. W. LOHRY, PRESIDENT, NUTRA-FLO CHEMICAL CO.

My name is Bill Lohry. I am President of Nutra-Flo Chemical, a family-owned company that has been in existence for 55 years. We manufacture and distribute fertilizers to a network of independent dealers in all of Iowa, Nebraska, South Dakota and parts of Minnesota, Colorado and Kansas.

I appreciate the opportunity to present my views on the effects of PIK on fertilizer input suppliers.

We have endured floods, with eight feet of water in my office. We had fertilizer tanks collapse and lose 10,000 tons of fertilizer on a cold January day. We have endured serious fires that have destroyed our feed plants. We have withstood the onslaught of embargos, high interest rates. We have battled against imports of nitrogen from the Soviet Union and Mexico. I am here today to tell you that compared to these calamities, I consider the PIK program one of the most disastrous catastrophies and one of the greatest challenges for survival our company so far has ever experienced.

PIK HAS DISRUPTED SUPPLY/DEMAND RELATIONSHIP

The reasons are simple. The PIK program was thrust on us just at the start of our season, causing chaos in the supply and demand relationships, and disruption of our pricing at all levels—manufacturing, wholesale and retail. The combination of reduced volume from the set aside acres, plus lower margins will have a devastating effect upon our industry.

THE INPUT SUPPLIER IS ESSENTIAL TO MODERN AMERICAN AGRICULTURE

Before discussing the reasons why PIK has been so devastating, I would like to bring out important facts about our input industry and why it is a necessary link in the great food producing chain that we call modern American agriculture.

The USDA stated in the foreword to the 1982 Yearbook of Agriculture that, "The agricultural system employes 23 percent of the U.S. labor force, yet only 3 percent of the labor force is directly engaged in farming." This means that the remaining 20 percent of the U.S. labor force falls within the agricultural support industries.

In 1950, one farmer produced enough food for 15.5 people. Today, that figure is placed at 78 people (Table 2). The efficiency of the modern farmers has increased nearly sixfold in 33 years.

The support industries that do his fertilizing, apply his pesticides, provide some tillage and even harvesting have provided the farmer more time to till more acres and apparently increase his efficiency. It is a team effort born out of the free enterprise system.

Corn yields in the U.S. have increased from 38 bushels per acre in 1950 when we built our first fertilizer plant to almost 115 last year (Figure 1). Why the increased yield? Obviously, better hybrids, pesticides to control weeds and insects, and increased management skills were main factors. The big reason, however, is the increased use of more fertilizer and improvement application techniques that not only maintain fertility but improve it over the years, even though harvested crops removed larger quantities of nutrients from the soil.

These high yields were absolutely essential in order to reduce production costs per bushel (Figure 2). As yields go up, costs per bushel go down (Table 1). We have been

able to double our yields every 20 years. In no other country has such a tremendous technological explosion in farm production occurred.

The reasons are as follows: Entirely new hybrids, new pesticides to control weeds and insects—certainly new fertilizing methods that maintain and improve soil fertility. But the underlying reason is "free enterprise at work". The progressive innovative support industries are the ones that have developed new hybrids—the new fertilizing techniques. The industry has educated the farmer in using these new techniques. They are instrumental in improving the management skills of the farmer.

In simple terms, the input industry and the farmers have teamed up to build the most productive food producing industry in the world.

THE FINANCIAL LIQUIDITY OF THE INPUT SUPPLIER IS JUST AS IMPORTANT AS THE LIQUIDITY OF THE FARMER

I quote these facts to emphasize that the local fertilizer and chemical dealer is an essential and critical cog in the food production machine. It is imperative that we maintain the financial health of these local businesses, just as the PIK program has maintained the financial integrity of the farmer.

THREE REASONS WHY PIK DEVASTATED FERTILIZER INPUT SUPPLIERS: SET ASIDE ACRES, POOR TIMING AND WHOLE BASE BIDS

Set aside acres reduced the market by some 35 percent in 1983 compared to 1982. The poor timing in the announcement of the PIK program created a shock wave to a free-market oriented industry. The whole base bids took the bigger, better farmers with good land that historically used more fertilizer.

First, set aside acres—the obvious problem.

Reduced acres are the obvious problem that affects the fertilizer industry. We all agree that measures had to be taken to correct our surplus. After all, we're running out of room to build more storage bins. I ask, did we need such a large correction in a single year? Are we exerting all available efforts on an aggressive marketing program? I believe that we don't produce too much; we don't sell enough. In Japan, government and industry work together to sell their production of cars, cameras, electronic goods. We, in agriculture, desperately need government help to market our production. I submit to you the PIK program is a "cop out". Because of our inability to market our product we have cut our production.

Second, poor timing created havoc in pricing and inventories.

A more important reason for the devastating blow to the fertilizer industry than reduced acres resulting from PIK was the extremely bad timing of the announcement of the farm program.

Reducing the acres was bad enough, but the extremely bad timing of this program was one of the crucial reasons for the devastating effect on the fertilizer industry. Allow me to explain why.

In the corn belt, there are roughly two times when fertilizer is applied to crops—in the fall after harvest, but before winter, and in the spring after the ground thaws out. Only about 25 percent of the fertilizer is applied in the fall if the weather allows. So we as an industry must sell about ¾ of the fertilizer in the six to eight week period in the spring before planting. In 1983, six weeks will be the extent of our season because we have only just gone to the field within the last week.

Our industry performs the astronomical feat of distributing about 50 million tons of fertilizer each year. Frankly, our distribution system is the envy of the world. Nitrogen, phosphate, and potash plants must operate every day of the year. The fertilizer is moved by rail, truck, barge and pipeline from the mine to the point of usage. In our case, fertilizer is shipped and stored in terminals and dealer-owned plants starting in August. The goal is to have the fertilizer in place before the spring thaw—ready to be applied in the short period of time before or slightly after the crop is planted.

Keeping these facts in mind, look what happened to us this season.

Fall 1982—Weather reduced our sales, but we started moving fertilizer into position for the anticipated spring season. We were counting on approximately 20 percent set aside.

January 11, 1983—A PIK program was announced. The USDA projected total harvested acreage corn and sorghum was supposed to be 71.2 acres of corn-sorghum (C-S) compared with last year acreage of 86.6 (Table 3).

That was a reduction of 15.4 million acres or, 17.9 percent. It is important to realize that 40 percent of all fertilizer used is on corn. To simplify our discussion, let's

only consider corn and sorghum production because this had the greatest effect on fertilizer usage.

In the USDA statement, USDA stated that, "expenditures for major farm inputs may decline only about 3-4 percent relative to estimates before the PIK program".

We made some corrections in our fertilizer movement, but we could live with this figure.

March 11, 1983—With the sign up completed, all of us in the fertilizer industry had a sick feeling in our stomach because we realized that the sign up was extremely heavy, but we were confident that the whole base bids would not be opened by the USDA.

March 18, 1983—This is the "Pearl Harbor day for the fertilizer industry". The USDA opened up the "whole base bids" and up to 45 percent of the corn acres in the counties of our trade territory were set aside. The attack was a stunning blow to all of us in our industry.

March 22, 1983—The final report was published. Our fears were confirmed. Instead of 23 million acres as originally projected, the USDA has set aside 82 million acres. It was clear that the fertilizer industry had moved too much fertilizer into the wrong areas.

POOR PROJECTIONS ON USDA COSTS OUR SMALL AND LARGE BUSINESSES MILLIONS OF DOLLARS

After the smoke from the attack cleared, we assessed the damages.

First, many small businesses had purchased inventories in excess of what they needed for the fewer acres. A recent USDA assessment statement stated next year would be better. Other so-called experts advised that we could carry the material till next year. Apparently, few government people understand how the free market system works.

It costs at least 20 percent to carry inventory over. But the real problem is: With sales projected to be down 25 percent to 50 percent depending on the area, the retail and wholesale segments were thrown into a supply-demand nightmare—where everyone struggles to get rid of inventory. Prices have tumbled at all levels as each dealer or wholesaler tries to reduce his inventory and maintain his volume. The catastrophy will be complete, when at the end of the short season—volume will be down—margins will be down—and although time will confirm this—bankruptcies will increase as well as takeovers of small business by large corporations. A devastating blow has been dealt to many good operators by the PIK program. Normally, the free market system is self-regulating—the inefficient are eliminated.

In this case, however, good operators were eliminated by government agency that shocked our industry with poor projections and a program that was dumped on us at an inopportune time, just before our season was to start (See Table 6). The USDA had projected reduction of 17.8 percent less corn and sorghum in January, 1983, but on March 11th USDA set aside 30 percent less of corn and sorghum acres compared to 1982.

Third, whole base bids—The sickening blow.

This final sickening blow that threw our industry into complete chaos was the taking of whole base bids (See Table 5). Many of our companies could have weathered the storm if the USDA had not accepted whole base bids. We estimate that on the March 11th sign up, USDA had received more acres than they projected in January—but on March 18th, they effectively took another 9 million acres of corn-sorghum. Why did they do it?

In Iowa, 35 percent of the set aside were whole base bids. In Nebraska and Minnesota, 25 percent were whole base bids.

Why were whole base bids so devastating to the fertilizer industry?

In our area whole base bids took a high percentage of the large farmers, often irrigators. These are historically better farmers, having a sound fertilizer program and raising higher yields. We were left with many of the smaller farmers who use less fertilizer on smaller fields and often poor payers.

The effect of taking the better land and better farmers out of the production system could in our view produce a lower average yield than the USDA projects. The USDA assessment statement on page 5 assumes that yields will be higher with average weather.

In our western corn belt area, we don't feel this will be true because many large, highly-skilled farmers with good land who irrigate, fertilize heavily and use good management practices, have been taken out of the production system.

You wanted me to comment on Section 4 of the USDA initial assessment regarding the effect of PIK on the non-farm sector.

USDA says fertilizer use is likely to decline 12 to 14 percent. This may be true on a national basis. In a regional area this is certainly not the case. For example, in Nebraska, we feel that the reduction of usage will amount to 25 percent to 50 percent. The larger figure represents the reduction in the irrigated areas.

USDA admits prices are likely to soften. This is an understatement with the supply-demand ratios completely disrupted. Prices have plummeted and margins have dropped.

Lower volume and lower margins will spell disaster for many small businesses. We need a few months to measure the full impact of the PIK program. As of today, for example, retail prices on some nitrogen are less than gas cost of producers.

Anhydrous ammonia is selling retail at $195 to $230/ton. Not $250 as is projected by USDA. Wholesale prices are in the $170/ton range, which barely covers natural gas cost by the producers. This PIK program has upset the free market system by injecting a sudden shock of reducing demand by 35 percent. Inventories have already been moved into the wrong locations. The result is complete chaos where supplier and dealers alike are trying to reduce carryover.

As you may know, about 25 percent of U.S. nitrogen producing capacity is already shut down because of injuries, low prices and general effects of the recession. I believe USDA is correct in assuming more capacity will shut down. We will become more and more dependent on imported nitrogen from Russia, Mexico and other countries.

In regard to financial impacts on page 12, certainly direct payments to farmers will help their financial liquidity. On the other hand, the devastating effect on input suppliers has been discussed. I strongly feel that if the input suppliers are jeopardized, the PIK program could destroy an integral part of the free enterprise oriented agricultural production system that could take years to repair.

USDA holds out a carrot when they say, "Hold on, next year, 1984, will be great." Meanwhile, however, many small companies will not be around to enjoy it.

The impact of PIK on employment will be more significant than USDA projects. In June, after this season is over, we foresee a sizeable reduction in farm help and in lay offs in farm oriented businessess. After all, if you're faced with a 25 percent reduction in sales, how else do you reduce variable costs? Certainly utilities, tax assessors, insurance companies are not going to reduce their charges. The real problem in 1983 is that most expenses were incurred before PIK was even announced.

If we had known about PIK in August of 1982 we could have reduced expenses by reducing inventory and prepared ourselves for the lower acreages. Management decisions that were based on no PIK were made before March 18th which has cost our industry thousands of dollars.

Suggestions as to what to do this year:

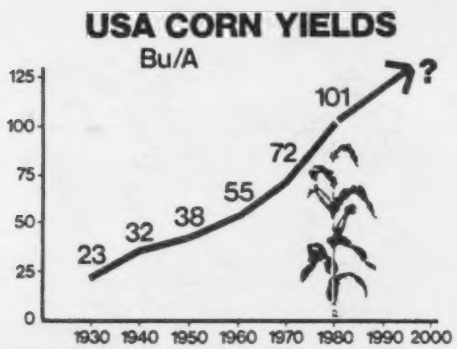
What does a government do when a victim suffers a hurricane, tornado, flood or earthquake? What should a victim who has suffered a business failure because of the action of a government agency do? I leave the solution to you.

Suggestions as to what to do next year:

1. Announce the farm program in August. Allow the input suppliers to plan ahead.

2. Don't take whole base bids. They remove the larger better farmers from production. It was the final blow to the fertilizer industry.

3. Aggressively seek improved foreign markets for our agricultural products.



USA average corn yields have dramatically increased in the last 50 years – in fact they have almost doubled each 20 years! New varieties, pest control and new fertilizer technology have caused these amazing increases - now this new technology is being used on wheat production.

FIGURE 1

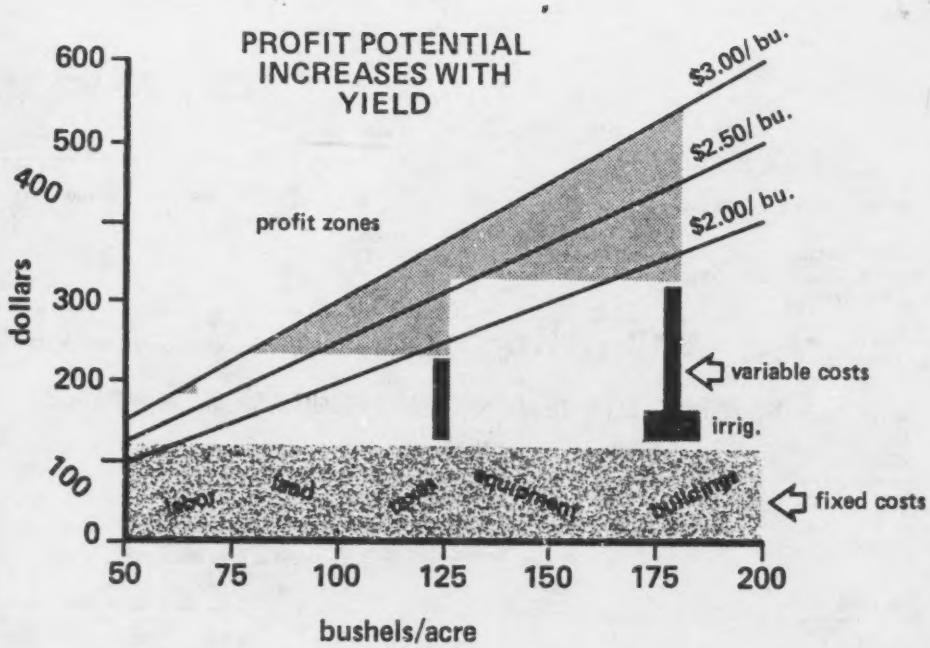


FIGURE 2

TABLE 1.—EFFECTS OF HIGH YIELDS ON CORN PRODUCTION COSTS

Source	Year	Yield (bushels per acre)	Production cost (dollars per acre)	Production cost (dollars per bushel)
Central NE	1979	130	284.63	2.19
Schmit	1979	190	329.06	1.73
Do	1979	230	339.03	1.47
Do	1979	285	376.93	1.32
Do	1979	311	387.53	1.25
Do	1980	240	429.00	1.79
Central NE [1]	1981	140	373.00	2.66
Schmit	1981	280	449.00	1.60
Do	1981	225	449.00	1.99

[1] University of Nebraska Bulletin EC 81–872.

TABLE 2

Year	Persons supplied food fiber by one farm worker	Farm output per hour (1967 = 100)
1950	15.5	34
1960	25.8	65
1970	47.1	115
1980	78	194

Source: USDA.

TABLE 3.—A COMPARISON OF PROJECTED AND ACTUAL ACRES FOR CORN AND SORGHUM

	1982 crop year corn and sorghum (C–S); harvested acreage	Jan. 11, 1983; 1983 crop year projected after PIK C–S acres; harvested acres	Mar. 22, 1983; 1983 crop year actual after PIK; C–S acres; harvested acres	Difference between actual set-aside by USDA and projected in Jan. and Feb. 1983.
Million acres corn and sorghum	86.6	[1] 71.2	[2] 60.7	10.5 million more acres set-aside than projected (1.7 times more).
Set-aside acres		15.4	25.9	
Percentage reduction acres compared to 1982 crop year.		17.8	29.9	

[1] From USDA Jan. 11, 1983 fact sheet on PIK.
[2] Estimated from USDA Initial Assessment of PIK Report April 1983 since actual projected acres of corn and sorghum was not provided by USDA.

TABLE 4.—A BREAKDOWN OF SET-ASIDE ACRES OF CORN-SORGHUM COMPARED WITH 1982 CROP YEAR

	1982 crop year [1] C–S harvested acres	Jan. 11, 1983 USDA projected set-aside with PIK	Mar. 11, 1983 actual set-aside acres (Acreage reduction, paid division and PIK total)	Mar. 18, 1983 whole base bids accepted	May 22, 1983 total set-aside
Million acres	[1] 87.4	15.4	[2] 16.8	[2] 9.1	25.9
Percentage of set-aside			65	35	100

[1] The 1982 C–S acres differed slightly on two reports (January and April).
[2] From USDA publication entitled, "An Initial Assessment of PIK Programs," April 1983.

TABLE 5.—SET-ASIDE ACRES OF CORN-SORGHUM

	Millions of acres				Percent acres whole base of total
	Total acres	Total set-aside	ARP plus PD+PIK	Whole base	
Iowa	14.9	6.2	4.0	+2.2	35.4
Nebraska	10.3	4.4	3.3	+1.1	25.0
South Dakota	4.4	1.8	1.4	+.4	22.2
U.S. total	101.1	39.4	25.6	+13.8	35.0

TABLE 6.—DIFFERENCE IN PUBLISHED PROJECTION BY USDA

	Jan. 11, 1983 projection before sign up	Apr. 1983 projection after PIK	Difference between actual and projected
Harvested corn (million acres)	60	[1] 49.2	10.8
Corn yield (million bushel)	6,876	5,641	1,235

[1] Estimated from USDA data.

Mr. MAVROULES. Thank you very much, Mr. Lohry, and let me thank both you and Mr. Strothmann for very informative testimony this morning.

I have a number of questions, but I am just going to ask two at this point, and respond to your own statements, and then I will turn it over to the panel.

You stated you needed an earlier announcement. I would like you to, particularly, tell just how you feel about that; and second, why you think that? How can the Government help you in marketing your product?

You said you needed Government assistance in marketing. I think it would be very important at this point that you share your views with us.

Mr. LOHRY. Certainly an announcement should be made and plans projected by July or August. Already, the wheat farmers are tilling their soil. We start moving fertilizer, the industry does, in August, into position. Why not give us a chance to plan ahead?

As far as what the Government can do, I look at the Japanese. Now the Japanese, supposedly, industry and government work close together in selling their electronic goods, their cameras, and cars.

The Government can help us in developing research for new uses for corn. We have got to develop more markets. For example, the Canadians have a quality control laboratory in The Netherlands, I understand, where the wheat comes in and they check the quality.

I am not an expert in export sales. My expertise, if it is, is selling products in the Corn Belt Area, but I know I have inventory. I want to move it. I have to develop new ways to sell it. I can't give specific reasons, or ways, but I am sure if we got together, we could develop some new avenues to merchandise this grain.

Mr. MAVROULES. Thank you very much.

Mr. Strothmann would you care to reply to those questions?

Mr. STROTHMANN. Well, I feel that the supply vendor out there in the short term, needs some type of financial assistance or some program to take the pressure off from his lending institutions, who provides operating capital, because they have a tremendous amount of capital investment involved, particularly the fertilizer vendor, not only in equipment, but also in inventory. At least give him a chance to get back on his feet again, either through the farm credit system for cooperatives or some other method of reducing that pressure.

Obviously, the real answer is finding outlets for agricultural productions, so that we can all thrive with the increased markets.

Mr. MAVROULES. While you are on that subject, let me continue with this question: At the present time, as you probably well know, there are some House Small Business Committee members who want to restore Small Business Administration's nonphysical disaster loan program.

Funding would be included for farm input industries that have suffered economic injury as a result of the program. Such firms would be eligible for direct or guaranteed loans, with interest rates as low as 8 percent for firms unable to secure private-sector credit. Businesses could borrow up to $100,000, and all interest and principal payments would be deferred for 1 year.

In your view is this adequate?

Mr. STROTHMANN. I would say it would go a long way toward helping them.

Mr. MAVROULES. That would be a step in the right direction?

Mr. STROTHMANN. That is right.

Mr. LOHRY. Yes.

Mr. MAVROULES. Very good.

OK, Mr. Hiler, do you have any questions at this point?

Mr. HILER. Yes, just several questions, whoever wants to answer would be fine.

If the PIK program in 1984, with sufficient notice in the July-August timeframe, and the figures were similar to the figures in the table that was given to the members of the subcommittee, what would be the impact on your industry?

Mr. STROTHMANN. You mean if it continued again?

Mr. HILER. In the 1984 PIK program, even with sufficient notice, in July or August you knew it was going to occur, and the final number of acres taken out of production were similar to the table that was handed to us?

Mr. STROTHMANN. It would be little hard to say, but it would still be a tremendous impact, because of the large amount of capital investment in fixed assets that the fertilizer vendor, in particular, has.

In our own experience, the low agricultural economy and poor farm prices had already decreased fertilizer in Missouri 20 percent before we ever came along with the PIK program, and now, this year, could be as low as a third.

There are a number of these vendors out there who have major investments to be able to take care of that volume. Prior to the PIK program, approximately 10 percent, or a little better, of the fertilizer blenders that we serve had already gone out of business.

It wasn't because of mismanagement; it was just because of reduced volume to the farm economy. Now, we take another 14 percent or 12 percent or take any percentage you want, it is still a very tremendous impact. So you continue for another year, and, in my estimation, it would be devastating.

Mr. HILER. Have you found, Mr. Strothmann, that financial institutions in Iowa, or Missouri, or Nebraska, wherever, some of the States that may be more severely impacted than others, have you found that financial institutions have been pretty hard-nosed with the money that they have loaned to people in your industry, or have they recognized the nature of the problem?

Mr. STROTHMANN. Well, we find that they are "understandable," but as some other witness had mentioned this morning, they still want their money.

Mr. HILER. I mean, are they coming in and foreclosing you? Are they working out a payment? It is always fun to take stabs at the banks, but I mean, in a rural community in Iowa, is the bank sticking it to the fertilizer dealer?

Mr. LOHRY. I don't think they are sticking it to the fertilizer dealer, in particular. It is like any other business. If I plunk down a statement, a P&L sheet with a lot of red on it, then they will back off and they will go somewhere else for the money. This is a problem that we are encountering. They can be understanding. But, as Harry said earlier, they want to be repaid.

No, we are going to have problems getting money, because you can't get money with a poor statement. We are going to have some problems this year. I can't tell the extent of the problems that we are going to have, because we are in the middle of the season, and everybody is struggling to reduce inventory, and no one will know until June the real impact upon the fertilizer industry, as a matter of fact.

We can only surmise, and I believe it is going to be quite serious.

Mr. STROTHMANN. I would like to add to that that many of the vendors that we supply are cooperative outlets who are financed through the Bank for Cooperatives, and they are even getting hard-nosed about wanting their money repaid. They don't have a free ride, by any means.

They are putting the pressure on, so to speak.

Mr. HILER. Thank you very much.

Mr. MAVROULES. Mr. Stenholm?

Mr. STENHOLM. I want to ask the same question in regard to your membership and its involvement, or lack thereof, in SBA lending activities.

Are your members experiencing any difficulties, or are you utilizing SBA?

Mr. STROTHMANN. Most of those that we serve are financed through the Bank for Cooperatives.

Mr. LOHRY. Yes; the Institute probably has very little members that use SBA, if at all.

Mr. STENHOLM. Mr. Lohry, one of your comments was extremely accurate, but I want to build on it just a little bit. When you said the problem with whole farm bids, I agree with what you said in regard to the problems that it has caused.

I guess the question I have is if we hadn't accepted it, where would we be as far as the needed production reduction, admitting it is creating a real problem for your industry. I wish there was a better way to do it, but you stated it took the better farmers, the best producers, the best land. That is what we have to do if we are going to have a meaningful supply management program. We somehow have to get not only the worst land, which the voluntary programs of the past have not worked, we have to get those.

So I guess my question, and it is one—is looking ahead to the next farm program. You know, as Bob Poage used to say as chairman of the House Agriculture Committee, "If it ain't broke, don't fix it." When talking about agricultural policy, I think most everyone in agriculture today agrees that agricultural policy is broke, and you can attack it from the perspective that you are here, and others are testifying today, and what it is doing to the basic infrastructure of agriculture now, as we attempt to have a cure for the oversupply problems that we have.

Or you can attack it from the budget problems. I shudder to think what is going to happen later this year when we already have, the press is beginning to sniff around as to what the real cost of PIK is.

The real cost of PIK is tremendous in dollar cost. When this begins to surface, we on the House Agriculture Committee, in particular, that deal with agricultural policy, are going to have a real problem as we look to the farm bill of 1985. When we begin to hear of the payments and all of this that are occurring, the PR problem—I have forgotten your name, sir.

Mr. LOHRY. Lohry.

Mr. STENHOLM. Yes, sir. Your statement in support of a paid diversion program. You know, I would hope, as we look to the future, that we can look at something else besides paying farmers not to produce.

The PR problem that we are going to have in the PIK program, as it begins to surface—in my district, which is a very agricultural, small business-oriented district, on poll after poll after poll that I take my nonagricultural business, and some of my agricultural business, quite frankly, state that they don't think farmers should be paid for not producing.

I don't either, and I think we need to look at this. I am not asking for an instant answer this morning, because I think your testimony was excellent. The points you make were excellent. I point out the inconsistency. What you are saying is very factual, but if we don't find a way to get production reduced evenly, in order to keep supply in line with demand, we are going to continue to experience what we have experienced, what brings us to a PIK, what brings us to the results of a PIK, and I shudder to think what is going to come in the 1985 farm bill, when the true cost of PIK begins to surface.

And I would encourage you, not only your association—I know you are already there—but others in the agribusiness infrastructure to take a good look at this idea of a national agricultural forum that is being kicked around, for the purposes of beginning, today, to talk about where we do want to go with agricultural poli-

cies of the 1980's and the 1990's; to begin planning today for 1985, when we have to write new farm legislation.

As we begin to analyze, as you have asked us to do, and I totally concur, let's do it early, let's not have any more whole farm bids, let's try to spread it as much as we can. We have got some real problems ahead of us. You have got them now. You have had them. I am a farmer myself, but I always put my agribusiness small businessman in the same position I am, and what is good for the goose is good for the gander, and what is bad for the gander is disastrous for the goose, and that is kind of where we are today.

But I hope you will help us in designing some programs for the future. The chairman's question on helping marketing. You know, one of the things that we can all do is quit talking about the free market. You know, folks, we do ourselves a tremendous disservice in agriculture when we talk about the free market, and the free market is the answer to our problems.

Because there is no such thing as a free world market, and if our Government does not stand shoulder to shoulder with us in developing and holding these markets that we have developed, the farmer hasn't got a chance in competing, and your industry will suffer, also.

I apologize for the statement. I really had no questions. I find myself in substantial agreement. I did want to point out the little problem, the inconsistency that I see in stating that the problem with PIK, it took the good farms. That is not the problem. We have to figure out a way to take their share out like we do everybody else's, or we can't design a program that works.

Now, I guess that would be a question. Do you disagree with me on that?

Mr. LOHRY. I would like [illegible] one comment. I have forgotten the first question.

Mr. STENHOLM. There [illegible] question.

Mr. LOHRY. Let me j[illegible] s[illegible] thing, in regard to whole farm bids.

First of all, we are payi[illegible]e, considerable money for a farmer to set aside his lan[illegible]

Mr. STENHOLM. Tre[illegible]ndous cost.

Mr. LOHRY. Whet[illegible]r it is in corn or cash, to me, it makes no difference, it is inventory, it is assets.

An irrigated farmer in Nebraska, 100 acres, will receive twice the income, for that 100 acres, if he puts his farm in the PIK program, as opposed to if he goes to work and farms.

So, we are paying him a considerable amount. You asked me what programs we should have rather than the PIK, 100-percent whole based bid. First of all, before they accepted whole base bids, they had projected a yield of 6.9 billion bushels, versus 8.3 in 1982.

Now, they are down to 5.6 billion bushels as an estimated yield of corn alone. My question is this: If we have 15 days of hot, dry weather in July in the western Corn Belt, or in the Corn Belt, as we oftentimes do, and put the corn in stress at pollination time, the critical stage, we could have a considerable less yield, and we wouldn't have a PIK program problem next year.

I think that we should have been more conservative in taking the acres over a period of 2 years, rather than a sudden shock that

would throw a lot of us into a financial bind. We could have done that. The 6.9 bushels, it wouldn't be too bad. The carryover would not be excessive. At least we could live, slept a little better.

Mr. HILER. Will the gentleman yield at that point?

I am just curious, though. If it had been a policy of gradualism, would the farmer have participated in the program because he wouldn't have thought it would make enough impact on the price?

Mr. LOHRY. He did participate in the program up to March 11, to the extent of setting aside 25 million acres out of 39.4 of the corn sorghum.

Mr. HILER. So, what you are saying then, let's go back to your table. It wasn't so much in the first 16.8 million acres that came out, it was in the last 9.1.

Mr. LOHRY. This was the whole farm bids, whole base bids, are the 9.1, the final March 18, where they opened the bids, is one of the things we are objecting to, that they didn't need to do that, but it really put us, input suppliers, into a critical financial situation.

Mr. HILER. But you are not saying that the 16.8 shouldn't have been there.

Mr. LOHRY. I am not saying that.

Mr. HILER. OK. I misunderstood.

Mr. LOHRY. The 16.8 was very close to their projection of 19.4 set-aside, versus 17.8. I wouldn't object to that at all.

Mr. HILER. OK. I yield back.

Mr. MAVROULES. Mr. Bedell, do you have any questions?

Mr. BEDELL. Mr. Lohry, of the people that you folks supply, do you know what percentage of those would be eligible for SBA loans if we were to make some loans available?

Mr. LOHRY. Congressman Bedell, Dr. Marvin Duncan of the Federal Reserve System of Kansas City has estimated that 20 percent of the input suppliers in the Kansas City area are in serious trouble.

I suspect after the PIK program, maybe the figure could be 30 percent. As we said, no one really knows. But I think that we should also bring out a very important point, that most of our input suppliers of fertilizer are not small mom-and-pop operations.

For example, a typical installation might have $500,000 invested in capital, which includes a large floater application machinery, nurse tanks, storage tanks, and so on. So I think that we have to be careful. An SBA loan for $50,000 wouldn't help us. Our problems are more, of greater magnitude than that.

Mr. BEDELL. Well, that is really my question. Not how many are necessarily just in trouble. There are several efforts to pass legislation that would make some loans available to those small businesses which are in serious difficulty because of the PIK program.

That is one of the purposes of this hearing.

Mr. MAVROULES. That is correct.

Mr. BEDELL. You know the industry better than we do. Would there be quite a few suppliers that would possibly fit that description of being small businesses which were in financial difficulty for the PIK program, and therefore, could qualify for loans if we were to make them available?

Mr. LOHRY. I don't know the number.

Mr. BEDELL. Percent of the industry is what I am talking about.

Mr. LOHRY. My problem is that some of our people will be in big trouble, and if you are talking about small business, then they wouldn't be in that category. The small mom-and-pop people, I can't say how many people would be in trouble. I think the figure of 20 percent from Dr. Marvin Duncan is probably an indication.

Mr. BEDELL. I think we should be concerned about them, whether it is a few or many, but I was just wondering from the sake of your industry.

Mr. Chairman, I have a letter from the United Suppliers of Eldora, Iowa, with your permission I would like to enter in the record.

Mr. MAVROULES. Of course.

[The letter referred to above follows:]

UNITED SUPPLIERS, INC.,
Eldora, Iowa, April 21, 1983.

Congressman BERKLEY BEDELL,
Rayburn Office Building, Washington, D.C.

DEAR CONGRESSMAN BEDELL: Your aide, Tim Galvin, graciously called me in regard to my recent letter concerning the impact of PIK on our company (United Suppliers, Inc.) and its associated members (independent farm supply dealers). The following comments outline my thoughts and are reflections of our rebudgeting process for this year on how PIK will affect us:

1. Our fertilizer division operates in both the liquid and dry segments of the market. Dry fertilizers are primarily a commodity item for us and we basically act as a broker for these products. The liquid fertilizers we manufacture with facilities in Eldora and Council Bluffs, Iowa. Its a little hard to compare how the PIK program will affect the fertilizer division between the years 1982 and 1983, as 1982 was less than a desirable year because of weather conditions. However even with the less than ideal situation in 1982 we sold about 16.5 million dollars worth of fertilizer to our customers. We would anticipate that in 1983 this would drop to about 14.5 million dollars a reduction of 12+ percent. As a normal year 1983 had been budgeted about 21 million dollars of sales, thus our revised forecast would reflect a 31 percent decrease. Our original budgets were primarily based upon our 1981 sales which was more of a normal year. Based on the revised budget we would estimate this year's loss to be approximately 600 thousand dollars in our fertilizer division. Again, as I mentioned in my preceding letter the fertilizer division is a high capital asset intensive business and eliminates the potential to dramatically cut costs as volumes decrease.

2. Our chemical division which distributes agricultural chemicals manufactured by most major companies (Shell, Monsanto, Ciba-Geigy, etc.) had projected 1983 sales of about 60.5 million dollars and have revised our 1983 sales to be about 46 million dollars. Our 1982 sales were about 54 million dollars. At the 46 million dollar level we would anticipate a loss of about 50 thousand dollars. This compares to expected profits of about 700 thousand dallars in the division.

3. Another major area that we see as having potential problems which could affect our bottom line would be the customers inability to pay. In visiting with a banker for one of our dealers in Cantril, Iowa yesterday he noted that the FDIC people had told him to get out of three customers, all three of these customers were farm supply dealers. The banker stated that the regulatory agency had made this recommendation because he felt the PIK program would substantially cripple these three dealerships enough to make them high risk loans. I believe that this is not an isolated incident and may be prevalent throughout the state.

4. Many of our dealers require substantial amounts of bank credit to cover their inventory and accounts receivable during the peak season. We have noted an increased difficulty for these people to line up banks overlines of credit to satisfy their needs. The prevailing comment from the larger banks is associated with what and how PIK will affect the equity of these dealerships.

Mr. Galvin mentioned that there could be a potential to activate legislation which could allow for low interest rate loans from the SBA. I would certainly think that something of this nature would be appropriate and very helpful in keeping the agricultural input industry afloat.

Thank you for your consideration and I will look forward to hearing from you in the future concerning this issue.

Very truly yours,

MAURICE L. HYDE,
Vice President, Finance.

Mr. BEDELL. I might read for you, from this letter, if I may:

In visiting with a banker for one of our dealers in Cantrell, Iowa yesterday, he noted that the FDIC people had told him to get out of three customers, all three of these customers were farm supply dealers. The banker stated that the regulatory agency had made this recommendation because he felt the PIK program would substantially cripple these three dealerships enough to make them high-risk loans. I believe this is not an isolated incident, and may be prevalent throughout the State.

I don't know if the gentleman is correct or not, but I would like to enter that in the record, if I might.

Mr. MAVROULES. Without objection, it is so ordered.

Mr. BEDELL. Mr. Stenholm, Mr. Lohry is in my district, and I, for one, can tell you that he is concerned about costs as much as almost anybody in our society. I have had a lot of correspondence with him, and I am sure I speak for you, Mr. Lohry, in being concerned about farm costs, as well as other costs. Is that not correct?

Mr. LOHRY. Yes, sir.

Mr. BEDELL. From speaking to people in the Agriculture Department, if the PIK program has the effect that they anticipate, then we probably cannot look forward to a program of similar magnitude, at least, next year, pure and simple. They simply won't have the corn to give away for such a program.

Finally, I would like to commend Mr. Stenholm saying we ought to look at future programs now, and I would like to join you in any way I could, Charlie.

My personal belief is—and I think we probably concur—that the Government and the taxpayers are not going to be willing to pay the costs necessary for a voluntary production control system for our whole agricultural sector. We are going to have to come up with some other proposals if things continue as they are now, where we have such extensive production capability compared to what we can consume or sell.

Mr. STENHOLM. Would you yield for a moment on that?

Mr. Lohry made a statement, and I fully concur. I hope you didn't misunderstand what I was saying in regard to the paid diversion and the cost and the difference in the PIK. The PIK program is a paid diversion. Once it becomes fully known by everyone just how much money we are spending on this, we are going to have extreme difficulty maintaining any kind of a farm program in the political climate that I have already sensed is here because of budget considerations.

Now, that is hindsight that we got into this. That would have listened to several of the folks up here as far as where we were recommending we should go in farm programs a year or 2 or 3 or 4 ago. My two colleagues from Iowa, we share a lot of similar viewpoints on that, but I want you to know I fully understand what we are looking ahead to. If there is press here, so what? The truth is the cost is tremendous, and the results are devastating.

Your industry, you are here talking about the devastation, so that is what we are talking about.

Mr. BEDELL. Thank you very much. I certainly appreciate the fact that you people have come here to testify, not just on behalf of yourself, but on behalf of others who are seriously affected.

Thank you.

Mr. MAVROULES. Mr. Smith, would you have any questions?

Mr. SMITH of Iowa. Yes; I just want to say, I was very interested in the testimony. I certainly agree that these radical changes are not good for either producers or their suppliers. When the farm bill was on the floor a year and a half ago, I had an amendment that would have prevented the Agriculture Department from fashioning the program a year ago so that people could not comply. If that amendment had passed, such a radical change in direction would not have been necessary this year.

That is what happened. Because they were not required to pay for diversions sufficiently, then farmers could not comply as needed a year ago, so we have this radical change in an effort to make up for that oversupply.

Both the administration and unfortunately, people on both sides of the aisle in the House opposed that amendment, and that is what got us into this problem to start with. I agree with you that we shouldn't have these radical changes in combining a reasonable diversion program with the reserve program.

We can keep marketable supply at a reasonable level and still have the supply we need so that we dare to divert enough and still know we will have the corn for our customers, or whatever kind of grain it is. So I agree with you on that.

But I do want to say that I think you may be overestimating the impact of this program, for this reason: We know that with proven yields, a lot of the land doesn't have the yield that was accorded to it. Producers can produce their settlement slips to prove how much they produced but who knows what farm it came from? And most of them farm three for four different farms.

So, some farms have high proven yields, and of course, that is the one they put into the program, and then we know that they are permitting combining farms that have never been combined before, even when they are in different counties, or even different States.

Then they farm the most productive land. So I think that maybe you are overestimating the reduction in production it will achive. I think there is a lot of slippage in the program, is what I am saying. But with regard to the disaster loans, that is the purpose of disaster loans, is when, due to Government action, or some physical disaster beyond the reach of the person, or the business, that is hurt, they can borrow the money to help finance their way out of the problem.

What you described about the bankers is exactly the kind of thing that disaster loans are for, it is an impact on the banker, too. He didn't expect this kind of demand on money in his locality.

So a victim can borrow the money, and over a period of years, pay it back, and finance his or her way out of a disaster. That is the fallacy of limiting it to the mom-and-pop. Disaster loans shouldn't be limited to mom-and-pop; they affect everybody in the community.

If the bank which serves the community does not secure a deposit from a larger operator, it can't make a loan; it is going to affect

mom-and-pop, too, one way or another. So I think that we should look seriously at the importance of this disaster loan program that we are trying to revive at the present time. I think it will help a lot of your customers, but it is not a gift. It helps them to finance their way out of the difficult situation.

Mr. MAVROULES. Thank you very much.

Let me thank both of you gentlemen for your testimony. Speaking for myself, I do not represent a large farming area from Massachusetts, but it has been most informative, and I would like to think that I have learned an awful lot here this morning.

Thank you very much for your testimony.

Our next witness is Mr. John Mullenholz. John is the legislative director of the National Farm and Power Equipment Dealers Association.

TESTIMONY OF JOHN MULLENHOLZ, LEGISLATIVE DIRECTOR, NATIONAL FARM AND POWER EQUIPMENT DEALERS ASSOCIATION

Mr. MULLENHOLZ. Thank you, Mr. Chairman.

If I may, I will be rather brief, and I would like to submit my statement for the record. I had an airplane to catch at 10:30, and I hope I can catch a shuttle in lieu of that.

Mr. MAVROULES. Without objection, we will enter your complete testimony in the record.

Mr. MULLENHOLZ. Mr. Chairman, our organization, of which I am the legislative director, represents the interests of about 10,000 farm equipment dealers throughout the United States. They are headquartered in St. Louis, and sell all brands and types of farm equipment, in every State and county in the country.

In order to understand our reaction to the PIK program, I think we have to look at the recent history of the farm equipment business, which has been disastrous over the last several years.

We have had many liquidations. Some of the dealerships that weathered the Great Depression of the thirties have experienced the worst years in their history in 1980 and 1981. High interest rates, low demand, and a high surplus of farm crops, have created a terrible plight for the farmers, and that has been reflected in their purchases of equipment.

As we looked at 1983, there was no improvement in sight. When the PIK program was first announced, we immediately went down and met with the Department of Agriculture. We did this in early December, to find out exactly what the program was about.

The economists from the industry came, and we had a significant meeting. Our projections as to the participation in the program, strangely enough, were exactly on point as to the number of acres that were actually taken out.

We projected about a 37-percent acreage participation at that time, and in fact, that, is what the farmers' participation proved to be.

As a result of our discussions, we came to the conclusion that in the short term things might not be as good as they possibly could be without the program, but in the long term, it was absolutely necessary to have some dramatic effect and some impact in the ag-

ricultural area, and that is why we supported the PIK program at that time.

Clearly, there was a dramatic impact. I don't think anyone who did not sit down and do the homework that we did expected the participation that, in fact, occurred.

As a result of the PIK program, we took it upon ourselves to try to * * * as one individual said when I was coming here to testify, "Don't tell them about lemons, tell them about lemonade." We tried to find a way to improve upon the program.

And what we have come up with is a program called AGRI-PIK. Our organization, which has no interest in the AGRI-PIK program financially but will service it, has developed what is a clearinghouse for the PIK contracts.

The purpose of that program is to permit the farmer to use the money which is wrapped up in that PIK contract right now, to purchase farm equipment, to purchase anything else that he needs, or wants to purchase, in advance of receiving the commodity which is represented by that PIK contract.

The way that the program works, very briefly is as follows: The farmer goes down to his local elevator, signs a cash forward contract, which establishes the value of his PIK contract. He then has credit with AGRI-PIK in an amount equal to that cash forward contract, minus a 10-percent contingency reserve and a very minimal fee, I think it is 1.5 percent.

Any dealer, any bank, or any other vendor or supplier to a farmer who participates in the AGRI-PIK program can then provide goods and services to that farmer, and will receive credit in his account in AGRI-PIK.

When the crop becomes available at the normal harvest time, elevator operator, sends the check to AGRI-PIK instead of the farmer, and all checks are disbursed at that time to those who have supplied goods and services to the farmer. That is the end of the AGRI-PIK program.

The advantage is that the farmer has the equipment or whatever services he wants well in advance of when he would have been able to purchase them. The dealers know what their commitments are for the year. The manufacturers have been able to reduce inventory, and it has been at a relatively small fee.

There are other programs which have been announced, and which are anticipated of a similar nature. So what we have tried to do, in short, is to take a program, which could present some problems, and try to make the best of it.

We don't have statistics to provide the subcommittee at this time, because the program is too new. We anticipate that the Farm Industrial Institute in Chicago will come out with some good statistics in May, and they may be of use to the subcommittee at that time, but we don't have anything solid at this time.

We anticipate that things may not even be as pessimistic as the Department of Agriculture projected for the implement industry. They projected a decrease in sales of 2 to 3 percent and repairs of 12 to 15 percent. They did that before the AGRI-PIK program and programs like it were announced, and it is very possible that even those declines will not be experienced in our industry. But we don't know at this time. That summarizes my testimony.

[Mr. Mullenholz' prepared statement and attachment follow:]

PREPARED STATEMENT OF JOHN MULLENHOLZ, LEGISLATIVE DIRECTOR, NATIONAL FARM AND POWER EQUIPMENT DEALERS ASSOCIATION

Mr. Chairman and Members of the Subcommittee, my name is John Mullenholz. I am the Legislative Director for the National Farm and Power Equipment Dealers Association which is headquartered in St. Louis, Missouri. Our organization represents the more than 10,000 farm and power equipment dealers throughout the United States who sell and service the machinery which is used to operate our farms and industries.

The focus here today is on the impact of the Payment-in-Kind program upon the farm equipment dealer. Since the PIK program has been in effect only slightly more than one month, it is impossible to provide the Subcommittee with any valid statistics. The best that we can do is to give you our estimate as to how the farmer will react to the PIK program in terms of purchasing and servicing equipment. We are aware, of course, that the Department of Agriculture has estimated that there will be a decrease of between two and three percent in equipment purchases as a result of the PIK program, and a decrease of between 12 and 15 percent in repair expenditures. We are not in a position, at this time, to confirm or dispute these estimates.

In order to be of assistance to this Subcommittee it is necessary for us to briefly review the recent history of the farm implement industry. The last several years have been the worst ever experienced by the industry in general. Sales of farm equipment have been disastrously low. Continued bumper crops and correspondingly low commodity prices have seriously eroded the farmer's purchasing power and have forced him to forego updating and upgrading his equipment to the detriment of the dealers.

We have seen many liquidations of dealerships around the country. Those who have survived have experienced serious erosions in income and greatly reduced profits forcing them to draw from reserves established in better times. Those who have not had the ability to establish such reserves have been forced to leave the business. Perhaps the greatest tragedy in our industry is experienced by those dealers who have labored throughout their careers to establish a dealership which would become a valuable asset and now find that the sale value of their operation is far below what they could have reasonably expected. For these dealers, retirement must be postponed indefinitely or entered into under very meager terms. On the other hand, as with any crisis, those with foresight, initiative, ingenuity and a measure of good fortune have prevailed in spite of the problems which have beset agriculture. Some dealers have experienced their best years ever during 1981 and 1982.

In the late Fall of last year, when the PIK program was first being considered, there was no reason to believe that 1983 would improve the plight of the dealers. Large harvests were expected and few, if any, observers of the agricultural economy foresaw an improvement in the financial condition of the farmer. Clearly what was needed was drastic action, both economically and psychologically, and if there is one aspect of PIK upon which we can all agree, it is that the program is a drastic change, particularly in view of the overwhelming response by the farmers.

Our assessment of the impact of the PIK program upon the dealers from the very beginning was one of cautious optimism for two reasons. First, we believed that the farmer would react favorably from a psychological standpoint because no other posible remedy was in sight. Secondly, we believed that while the dealers might suffer a slight decrease in what was expected to be another dismal year, the long-term result would be increased prices for the farmer's products which would in turn generate funds for the modern equipment which the farmer has postponed purchasing.

We also felt that the farmer would probably have additional cash during 1983 if he participated in the PIK program because he would not be spending as much to put his Spring crop in the ground. True, the most likely destination of this cash would be repayment of loans but this in turn would improve the farmer's credit standing making it possible to borrow for equipment purchases during 1983.

What we had not anticipated, even earlier this year, was the possibility that the farmer would be able to use his PIK contract for purchases prior to receiving the PIK commodity from the Commodity Credit Corporation. However, two major programs have been started to give the farmer the opportunity to use the PIK contract for purchases now rather than await a final sale of the commodity late in 1983 or early in 1984.

The first, and of course the one of which we are very proud, is the AGRI-PIK Program, The National Farm and Power Equipment Dealers Association is acting as the servicing agent for the AGRI-PIK Program, although the Association has no fi-

nancial interest in AGRI-PIK. Very briefly, AGRI-PIK works as follows: First, dealers, manufacturers, banks, and other businesses have joined and are continuing to join AGRI-PIK for a small fee. The farmer assigns his PIK contract to AGRI-PIK. The commodity is sold to a grain elevator for delivery at some specified point in the future using a cash forward contract transaction, thereby establishing a value for the commodity. The farmer now has credit with AGRI-PIK in the amount of the contract minus some rather minimal fees charged by AGRI-PIK and a refundable 10 percent reserve to cover any dockage associated with delivery of the grain. The farmer then designates how he wishes to use his credit. The credit is available to be used with any and all members of AGRI-PIK.

For example, if the farmer wishes to purchase a tractor for $50,000 and he has credit with AGRI-PIK of $200,000, he requests AGRI-PIK to arrange credit with the dealer for $50,000, leaving the farmer with $150,000 credit in his AGRI-PIK account. Similarly, the farmer can dispose of the remainder of his credit with other creditors or vendors who are members of AGRI-PIK.

On or after the commodity is made available by CCC, the elevator receives the commodity and issues a check directly to an escrow account established by AGRI-PIK. The escrow bank is then directed by AGRI-PIK to issue checks to each of the AGRI-PIK members who have been credited as a result of transactions by the farmer and, if the farmer has any balance left in his account, a check is issued to him in that amount. In essence, AGRI-PIK acts as a clearinghouse for its members and for the farmers who assign their contracts to AGRI-PIK. The fee to the farmer for this service is a rather modest 1.5 percent.

Many types of businesses have expressed an interest in joining AGRI-PIK because they are unequipped to deal with the PIK contract directly. For instance, some banks do not wish to handle the PIK contracts but want to loan money to the farmer knowing that he has assured income due under the PIK program.

A second program has been initiated by the International Harvester Company in conjunction with one of the major grain and commodity dealers in the United States. As we understand the International Harvester program, the farmer will establish a value for his PIK Commodity through a cash forward contract. Based upon that value, the farmer will be able to purchase International Harvester equipment or he will be able to get cash for his PIK contract.

Obviously the purpose of these programs is to enable the farmer to liquidate, at least to some extent, his PIK contract thereby injecting much needed activity in the agricultural support industries. It is also expected that other programs will be announced in the coming weeks directed at this same goal.

You have requested our comments upon the assessment of the Department of Agriculture of the economic impact of the PIK program. As you know, USDA projects a 2-3 percent decline in sales of farm equipment as a result of the PIK program and a decline of 12-15 percent in equipment repairs. We do not have staff economists at NFPEDA to verify these figures even if statistics were available. Our analysis of the impact of the PIK program, based upon input from our dealers and years of experience, is that our industry, particularly in view of the outlook for 1983 without PIK, will benefit overall from the PIK program. Moreover, it is our belief that if farmers utilize the programs available to get cash or credit for their PIK contracts prior to the availability date, the immediate impact could improve equipment sales for 1983. This assessment, of course, is in contrast to the slight decline projected by the USDA. However, that projection was made prior to announcement of AGRI-PIK and similar programs.

Finally, you have requested our recommendations as to what might be done to alleviate any problems which exist for businesses as a result of the PIK program. The major difficulty which we have encountered is a lack of uniformity on the part of the County Committee offices in the application of the PIK program. In some instances, we have been advised that the Farmers Home Administration has required farmers to immediately sign over the PIK contracts thereby depriving the farmer of the opportunity to make purchases in the input industries with the proceeds of the PIK contract.

We have also received information that elevators which will play a vital role in the final implementation of the PIK program have not been advised by USDA as to how to treat PIK contracts and PIK commodities. Continued delay in this regard will retard the implementation of AGRI-PIK and similar programs. In order to establish the value of the farmer's PIK commodity the elevator must execute the cash forward commodity contract. Elevator operators must have full confidence that the assignee under a PIK contract has the right to sell the commodity represented by the contract. Even more important, the elevator must be assured that the assignee, as the owner of the PIK commodity, is not subject to any of the claims of the credi-

tors of the farmer. The elevator will then know that it is obtaining lien free commodity and will be able to make payment to the assignee without fear of claims from the farmer's creditors.

In conclusion, Mr. Chairman, please let me restate our support for the PIK program. For your information we have attached a short step-by-step description of the AGRI-PIK Program. We appreciate the opportunity to appear before your Subcommittee and we would be most pleased to answer any questions.

ATTACHMENT A

Here is how an AGRI-PIK transaction works:

Hypothetical AGRI-PIK Transaction

March 11, 1983
Farmers PIK contract accepted by USDA

1
May, June, July, August
Farmers make purchases from equipment dealers and other suppliers. To use his PIK contract as credit security with more than one supplier or lender until PIK commodities are sold, farmer assigns his PIK services contract to AGRI-PIK SERVICES, INC.

2
On purchase date,
Farmer & dealer agree on November 15 "Settlement" date.

3
On purchase date
Farmer makes advance cash booking at local elevator for November delivery.

4
Farmer receives goods and services.

5
November 1, 1983
Farmer delivers PIK commodity against cash booking on Nov. 1

6
November 1, 1983
check from elevator goes directly to UMB-KC/lockbox-PIK

7
By November 7
Checks written and mailed by UMB

8
By November 15, 1983

Dealer	Receives payment from UMB
AGRI-PIK	Receives 1 1/2% service fee from both dealers and farmers
Farmer	Receives check for unused portion of advanced cash booking and is released from assignment of PIK contract to AGRI-PIK SERVICES, INC.

Benefits Summary: Farmer was able to purchase equipment at very favorable price and terms before he even received his PIK entitlements; dealer was able to confirm spring and summer sale; manufacturer was able to reduce inventory early in the season; all paperwork and financial transactions were properly handled through AGRI-PIK as a service to all parties.

Mr. MAVROULES. Well, thank you very much.

Mr. Hiler, do you have any questions?

Mr. HILER. I will take one question, knowing that he wants to catch an 11 a.m. shuttle. If you had to rank the problems that your industry faces, say, the five top problems, would the effect of PIK enter into one of those five, or would it be one of the five things that are going for your industry right now?

Mr. MULLENHOLZ. If I understand your question, are you asking whether the PIK program is of benefit to our industry right now, or is it a problem for the industry?

Mr. HILER. And where would it rank relative to other benefits and other——

Mr. MULLENHOLZ. That is a very difficult question to answer. I would say that it would not be in the top five problems. Where it would rank in terms of things that are helping the industry, certainly I think that overall, the dealers view it as an aid to their present problems.

I go around, throughout the country, and meet with the dealers that speak to their conventions. I try to give them some idea of what is going on in Washington, which, as you know, is very difficult, but the reaction that I get from the individual dealers, and I have a great deal of reaction, I talk to them every——

Mr. HILER. Incidentally, when you find that out, would you let us know?

Mr. MULLENHOLZ. Yes. They know better than we do, I am afraid. They are very, very encouraged by the PIK program. Of course, they all want to take advantage of this AGRI-PIK program, to try to sell some equipment in advance of the harvest date. But, the reaction, yes, is very favorable to the PIK program overall.

Mr. HILER. I have no further questions, Mr. Chairman.

Mr. MAVROULES. Do you have an 11 a.m. flight?

Mr. MULLENHOLZ. Well, I was going to try to catch a shuttle if——

Mr. MAVROULES. Why don't you go ahead. I had a question——

Mr. MULLENHOLZ. Go ahead. I have got a car waiting, so I can take a couple.

Mr. MAVROULES. No, you don't have enough time. You better get going.

Mr. MULLENHOLZ. All right. Thank you.

Mr. MAVROULES. Thanks a lot. Thanks for coming in.

Next, we have two witnesses, who will serve as a panel. The first witness is Dr. Harold Loden, who is the executive vice president of the American Seed Trade Association, and Robert S. Davis, who is the president of the Big D Seed Co., Davis Seed Farm.

Gentlemen?

PANEL CONSISTING OF HAROLD D. LODEN; AND ROBERT S. DAVIS

TESTIMONY OF HAROLD D. LODEN, EXECUTIVE VICE PRESIDENT, AMERICAN SEED TRADE ASSOCIATION

Mr. LODEN. Thank you, Mr. Chairman.

I am the executive vice president of the American Seed Trade Association. We have about 600 firms who are members of the association, and it celebrates its 100th year anniversary this year.

I will file my full statement, and I will summarize it in the interest of time. I will make an attempt not to repeat the statement in my remarks.

Mr. MAVROULES. Without objection, your full statement will be entered into the record. Thank you.

Mr. LODEN. Immediately after the PIK was announced, our association took a very positive, unqualified position in support of the program, and so advised the Secretary of Agriculture in a letter. Many of our member firms took unilaterally the same positions on the simple basis that what is good for producers is also good for our business.

This has been true for small companies as well as large companies. However, the extent of participation in the program was a surprise to everyone. The larger companies because of their diversity have been better able to adjust the program. Smaller companies without the advantage of size or diversity or broad markets are faced with real financial problems as a result of the program. Due to the long-term nature of seed production, the sequence of events that creates the current cash-flow problem of the seed industry began more than a year ago.

Because you have to grow the seed, and you have to plant it at least a year in advance in annual crops. We have expenditures in the form of roguing and detaching costs, which are incurred many months in advance of the sale of the product. So that the seedsman, in 1982, with no indication of any type of substantial program of reduced acreage, went about producing his normal expected supply of seeds.

We have about 200 companies in this association that produce either hybrid seed corn or hybrid sorghum. Of these 11 have over $25 million in gross sales; 31 from $4 to $25 million, and the vast majority are companies less than $4 million in sales. It is these small companies that have been hardest hit by this market dislocation. We have taken issue and have advised the Department of Agriculture that we do not agree with their figures regarding the net reduction and effect upon the seed industry, which has been reported to be about the range of 10 percent.

That average figure may be correct, but there are no averages in our business, and to arrive at the average, you must add apples and watermelons, and come up with an average figure. This means that since the reduction in acreage, and reduction in sales are in direct proportion, that producers of hybrid sorghum and hybrid corn are experiencing sales losses, or reduction in sales well above 30 percent.

The USDA has averaged into this figure the increased sales of soil-conserving crops, and that is where we get to adding apples and watermelons.

The companies that handle the major program crops, such as corn and sorghum, do not handle soil-conserving crops. Those crops are produced by specialized firms, primarily in the far west. However, with the very large acreage in 1983 to be planted in soil-conserving crops, the fact that we produced those crops in 1982 in ex-

pectation of normal supplies, most of those were sold and were already in the channels of commerce to their traditional customers. The U.S. producers of foreign seed have not benefited from the dramatic increases that have occurred in some crops in some locations.

The major beneficiary, as far as seed is concerned, and the sale of soil-conserving crops, of the PIK program, have been the Canadian seedsmen. Most of the increased demand is being supplied from Canada. Some of our seedsmen call PIK the "Canadian seed relief program," and the imports from Canada this year are, by far, the largest in history.

Another point I would like to make is to talk about the time of announcement of PIK. It is already too late today for that to have any effect upon the seed as it relates to the 1984 crop.

Some time ago, in the absence of adequate information about whether there would or would not be a 1984 PIK, we then had two segments of our bidders who were faced with alternatives, the seed corn company, in order not to build up additional burdensome supplies, must assume that there will be a PIK. The producer of soil-conserving crops, likewise, not wanting to have burdensome surpluses that he can't sell if there is no PIK, must assume there will not be a PIK.

So, whichever the situation is, it remains exactly the same, and the man who will pay for that, of course, is the American farmer in the price of seed that he has to buy next year.

Based upon interest from a number of our smaller members, we have discussed with the Farmers Home Administration ways to relieve their cash flow problems. These discussions have not brought any results of benefit.

Second, we have discussed it with the Small Business Administration, and likewise, those discussions have not produced positive results.

Our problems are one of cash flow and relief out of current problems. It is not a matter of asking for handouts or relief. I appreciate the opportunity to make these comments, and will respond to any questions.

[Mr. Loden's prepared statement follows:]

PREPARED STATEMENT OF HAROLD D. LODEN, EXECUTIVE VICE PRESIDENT, AMERICAN SEED TRADE ASSOCIATION

Mr. Chairman, I am Harold Loden, Executive Vice President of the American Seed Trade Association (ASTA). Our Association represents over 600 firms engaged in the production and marketing of seeds. In June of this year, we will celebrate the 100th anniversary of our Association.

I wish to express to you, and to the Committee, our appreciation for your providing this opportunity to discuss the impact of the PIK Program on the seed industry.

Shortly after PIK was announced by the Secretary of Agriculture, the Board of Directors of the American Seed Trade Association voted to give unqualified support to the program. A letter was sent to the Secretary on February 25, 1983, by William T. Schapaugh, President of ASTA, stating that "our Association recognizes the need and the benefit [of the program] to American farmers to better balance supplies with demand, and we applaud your efforts to restore economic vitality to American agriculture."

Many of our member firms unilaterally took similar positions. In a cover letter to managers and administrators of his firm, the president of one member company made the following statement: "As you can see from the statement, [we] recognize the negative impact of these programs on the farm supply sector for the short term. However, we know that the long-term health of our business depends upon a solid

and productive agricultural industry . . . and that what's good for farmers is good for [our company]."

This pattern of support has held true for small companies as well as large ones. However, the extent of farmer participation was a surprise to everyone. The larger seed companies—because of market share, diversity of crops and the ability to spread seed production over a wide geographic area—have been better able to adjust to the program. Without the advantage of size, crop diversity and broad markets, the smaller companies are being faced with real financial problems as a direct result of the program.

Due to the long-term nature of seed production, the sequence of events which creates the current cash flow problem of many seed producers began more than a year ago. Long before the PIK Program was even being considered, seed companies had to determine how much seed to produce to meet what was reasonably anticipated to be the probable demand for 1983.

Seed companies generally contract for production with farmer-growers. Parent seed is furnished the farmer-grower and the crop is monitored throughout the growing and harvest season. It is this effort which makes the difference between growing the crop for seed or as a commodity. In the case of hybrid corn, major expenditures are made for detasseling and rouging. The seed is then conditioned, bagged and held in inventory to be sold the following planting season. The "overhead" money which a seedsman needs to produce, condition and hold seed in inventory until it is marketed the following Spring is borrowed from local banks—and the high cost of money was already a major problem for most seedsmen prior to any mention of a PIK Program.

Seed production fields for corn to plant for the 1983 crop year were planted in the Spring and harvested in the Fall of 1982. Seedsmen, who had no reason to assume it might be otherwise, produced for a normal year and now find corn planting substantially reduced because of the program. This leaves them with much larger than usual inventories, which they must carry for another year at high interest costs.

This discussion deals primarily with the problems facing producers of hybrid corn and sorghum rather than other crops covered by the PIK Program. This is due to the fact that many of these other crops, such as wheat, can be sold as a commodity with much less loss to the producer if it cannot be sold for planting seed.

There are approximately 200 companies in our Association that produce hybrid seed corn or hybrid sorghum. Eleven of these have over $25 million in gross sales; 31 have $4 to $25 million, but the vast majority of the companies have less than $4 million in gross sales. It is these small companies which have been hardest hit by the market dislocation caused by the PIK Program.

We have taken issue with figures published by the U.S. Department of Agriculture indicating that the PIK Program will have a net reduction and effect on the seed industry in the range of 10 percent. The "average" figure may be correct but the problem is that, due to the characteristics of the seed industry, that average is determined by adding apples and watermelons. Reductions in sale of seed for program crops is in direct proportion to acreage reduction, which means that producers of hybrid corn and sorghum are experiencing reductions in sales well above 30 percent.

The USDA figure is the result of averaging the value of increased sales of soil conserving crops with reductions in sale of seed of program crops. This is the basis for the comment that the average is the result of adding apples and watermelons. The USDA has reported that the increased sale of forage seed has tended to compensate seed companies for the loss of sales of crops covered by the PIK Program. However, with the exception of a handful of major firms, most seed corn companies produce and sell nothing but corn. Conservation crop seed are produced primarily by companies in the Far West which specialize in grass and forage seed.

The large acreage required to be planted in conservation crops in 1983 has naturally caused, in our free market system, price increases for such seed. Although the demand and price for forage seed for conservation acreage have increased dramatically, little if any of the benefits have accrued to most producers of program crops. In fact, many U.S. forage seed producers have not benefitted significantly from this market change. Prior to the announcement of PIK, many producers of forage seed had sold most of their crop and it was in the pipeline to traditional customers at normal prices. Overall benefit to U.S. producers has been in the reduction of excess inventory, which resulted from the excellent production of some forage crops in 1982.

Major beneficiaries of the PIK Program and the demand for conservation crop seed have been Canadian seedsmen. Most of the increased demand is being satisfied

from Canadian sources and imports of such seed into the U.S. from Canada have probably been the largest in history.

U.S. seedsmen producing seed of program crops as well as conservation crops both face the same dilemma as it relates to seed for the 1984 crop. In the absence of information on whether or not there will be a PIK Program in 1984, the only alternative to the possibility of having a burdensome surplus of seed for which there may not be a market is for corn and sorghum producers to produce on the assumption there will be a PIK Program and 1984 sales will be comparable to 1983, while forage seed producers must assume there will not be a PIK Program and that 1984 sales will be normal, rather than continue at 1983 levels. In any event, the adverse effects of this situation will be felt by U.S. farmers in purchase of planting seeds for 1984.

Based on requests from a number of our smaller member firms, we met with the Farmers Home Administration in an attempt to find ways to assist these seed companies through this year. The FmHA Business and Industry Loan Program offers guaranteed loans, but at the market rate. It is the cost of loans, not the availability of money which is the problem. We have also had discussions with the Small Business Administration, but these have not had positive results, since the SBA low-interest loan programs have been eliminated. Many seed companies, particularly the smaller hybrid corn companies, are in great need of assistance to solve a cash-flow problem created by having to carry inventories in which investment is in excess of a normal year's profits.

We appreciate the opportunity to present these views.

Mr. HATCHER [presiding]. Thank you.

Mr. Robert S. Davis.

TESTIMONY OF ROBERT S. DAVIS, PRESIDENT, BIG D SEED CO.

Mr. DAVIS. Thank you, Mr. Chairman, members of the committee.

As others have done, I will summarize my statement here, since I was able to file this written statement this morning.

I am principal owner and operator of a small seed corn, soybean business. As Mr. Loden said, our sales are under $4 million annually, and while I represent no associations or companies, I have talked with a number of seedsmen, and there are probably 200-plus small seed corn companies in this country. My experience is that I worked fulltime in the hybrid seed corn business since 1948. I, too, am proud to be a citizen of this country that cares enough about its people to help out with this PIK program.

It is very good of this committee to assess the negative impacts of the program as well, and try to see what should be done about that. With all due respect to the President and Secretary Block and all who are making the program a huge success, there are negative impacts upon seedsmen that should be considered.

This morning, we have heard some reports from the Department that the seed industries affected may, perhaps, be 12 to 15 percent, but this average includes several things besides seed corn.

In doing some figuring what the impact is upon the seed corn business, I determined that in 1982, when we had a national acreage of 81.3 million acres, some 25 million bags of seed corn were used.

This year, we had a sign-up percentage of corn acreage of some 38 to 39 percent, and even allowing for slippage, we are still going to have an acreage reduction of something like 33 to 35 percent or something like that. With that kind of an acreage reduction, there is going to be a huge financial loss for our industry. Even though we are a small industry and the numbers do not total that of the

larger industries, it does have great impact for individual companies.

This impact, I have calculated in the statement here, of $400-plus million, does not mean that our losses in the industry are going to be that great, but our losses will, I believe, total a major portion of that receipt loss.

As Dr. Loden mentioned, seed corn companies must plan their programs well over a year in advance. By the time the PIK program was announced, discussed last fall, finally put into effect by the Department in January, and the effects became known late spring, it was too late for us to change the major expenditures to which we were committed.

So this means that the many seed operations are going to sustain a substantial loss.

The PIK program affects each company differently. Some companies with large corporate backing, or companies with strong earnings, or alternate sources of income, are best able to cope with the impact. Weaker companies, companies with alternate income, or a history of marginal profit, are vulnerable.

While the average range of reduction of these companies may be in the 33 to 35 percent range, some companies will probably find their sales off less than that, while others who, through no fault of their own, may find their sales down perhaps 50 percent or more. This can be extremely serious financially for the individuals involved.

We like to think these problems will not be because the individual managers are unable to manage or they are bad managers, but it is just simply a case of having an overwhelming program come on too late in their annual cycle.

It just doesn't seem right that people should be put out of business just because they can't tell a year in advance that the Federal Government would undertake a program that would deprive them of customers and sales.

Our industry also is supported by independent foundation seed companies that provide seed for individual commercial companies such as our own. These companies have probably been impacted even more than the commercial seed companies. They are vital in our whole food chain.

I really believe that the Government does have an obligation to be responsible for its actions and it should not force companies out of business. When disaster strikes, Government often gives strong help to those in distress, and I think it should in this case, when the disaster is caused, even though it was unintentional, by a Government program.

What most seedsmen want, I think, is just a fighting chance to survive. Some may ask, well, what do we think the Government should do? For many farmers, this PIK is a blessing. We have heard some say it is just a short-term, Band-Aid-type solution for a longer-range problem, but it does help get us started in a proper direction.

But for others, PIK is an overwhelming loss that becomes a greater debt. Because it is such a staggering thing for many seed companies, I do urgently suggest that the committee consider legislation that would provide some form of low interest loan program,

guaranteed loan. The greatest help would be some form of compensation for seed companies which have suffered losses because such PIK loss compensation would reduce losses whereas government loans would simply restructure the losses. A person can not borrow himself out of debt.

As others this morning have suggested, certainly future announcements made early enough would help seed companies plan ahead so that they can allow for what is going to be ahead for them.

As others do, I do thank you gentlemen for the courtesy extended us for this hearing this morning, and if I can answer any questions, I would certainly be glad to.

[Mr. Davis' prepared statement follows:]

PREPARED STATEMENT OF ROBERT S. DAVIS, PRESIDENT, BIG D SEED CO.

Mr. Chairman, I am Robert S. Davis, principal owner and operator of a small hybrid seed corn and soybean seed business. Our company was started by my parents in the mid-30's. I was active as a youth in the seed corn busimess and graduated from the University of Illinois with a degree in agriculture after serving as a combat pilot in World War II.

I have been working full time in the seed corn business. This is the first time I have appeared before a Congressional Committee and I consider it an honor and a privilege to be able to report to you some of the effects of the PIK Program as I have oberved them first hand and from talking with a number of other seedsmen.

I am proud to be a citizen of a country that cares enough about its people to recognize that many of our farm people are facing serious financial difficulties and which has undertaken the PIK Program to give a strong helping hand to people who need it. It is also very good of this Committee to consider some of the unintended effects of the PIK Program which have had a negative impact upon the agricultural input idustries and to consider possible remedial action. Because of the time limitation, I will speak only about the effects upon seed corn companies.

With all due respect to President Reagan, Secretary Block and all who are making the PIK Program a huge success, there are some negative impacts upon seedsmen that should be considered. The reports I've seen mention a 1982 national corn acreage of 81.3 million acres. Assuming a standard 80,000-seed bag normally plants 3.3 acres of corn, about 25 million bags of seed were used in 1982. With a corn acreage reduction of some 38+ percent, and allowing for some dropouts, it is still likely that 1983 corn acreage will be reduced by one-third, as compared to 1982.

This means that approximatley 8.6 million fewer bags of seed corn will be sold in 1983 than in 1982. Assuming the seed company receives an average price of $50 per bag for single cross hybrid corn seed, the seed corn industry is likely to suffer a $430 million loss in gross receipts in 1983 as compared to 1982.

Seed corn companies must plan their annual programs well over a year in advance. By the time the PIK Program was announced and implemented, the seed companies had long since committed themselves to a full year's normal expenses. Given this commitment, a surprise government program forcing such a massive gross income loss, means very few seed corn enterprises will make any net income in 1983. While seed corn companies are glad to see farmers benefits from the government program, seedsmen must cope as best they can with the impact of the program on their operation.

The PIK Program effects each company in a different way. Companies with large corporate financial backing, companies with records of strong earnings and companies with alternate income are best able to cope. Weaker companies, companies with little alternative income, and a history of marginal profit are the most vulnerable.

On the surface, it might seem that seed corn companies should be able to absorb a loss and bounce back in the following year without a problem. This might normally be true; however, PIK has made it more difficult. For some, heavy losses would be a fatal problem.

Many small seed corn companies were not able to sell forage seed for the PIK conservation acres beause they did not have the experience required to be successful in the forage seed business. For those who did, many found that it was not enough to offset the loss in corn sales.

While the average corn acreage reduction might be in the range of 33 to 35 percent, some companies will probably find their sales off less than 30 percent while others, through no fault of their own, may find their sales down 50 percent or more.

Most companies can take small acreage cuts, like the USDA Reduced Acreage Program, but the huge reductions brought about by the PIK Program are going to cause such cashflow shortages that many companies simply will not be able to meet their bank obligations. If their bankers do not go along with the seedsmen for another year, rolling over these loans, a number of otherwise excellent seedsmen may not survive the unintended negatives side effects of the PIK Program.

Many seedsmen have been in the seed corn business all of their lives, as I have been, who have served their customers well and are good solid "Salt of the Earth" types of people. Small seed companies also produce and sell high-quality seed corn, participate in community affairs, hire a number of local people the year round and many more during the summer. There are businesses which fail all the time because the people who run them are inept. But this is not the case here, and it just doesn't seem right that these people should be put out of business simply because they could not tell, a year in advance, that the federal government would undertake a program that would deprive them of customers.

I believe foundation seed companies have been hurt as much as the commercial seed corn companies and they are vital to the seed corn business. Commercial seed corn companies, such as ourselves, provide a vital service to corn farmers. Corn farmers provide food and feed vital to our food chain—and we all have to eat. Saving foundation seed companies and commercial seed corn companies is truly in the long-term best interests of American corn farmers and of the consumer as well.

Therefore I conclude the government does have an obligation to be responsible for its actions and should not force a seed corn company out of business. When a disaster strikes, government often gives strong help to those in distress—and I think it should in this case, since the disaster was caused, however unintentionally, by a government program.

What can or should the government do? For many, PIK is a blessing; unfortunately, for others it may be an overwhelming loss. Therefore, I suggest:

1. This Committee consider legislation that would provide some form of low interest loan program and/or some form of compensation for seed companies which have suffered losses resulting from the PIK Program.

2. That future programs similar to PIK be announced as far in advance as possible, to allow for planning and to minimize the negative impact.

I thank you for the courtesy you have extended to me during this hearing. I will be happy to answer any questions you might have.

Mr. SKELTON [presiding]. Mr. Hiler?

Mr. HILER. Thank you very much, Mr. Chairman.

In your industry, if someone is in the seed business, is that all they do in the business is sell seed? Do you have some diversity in it?

Mr. DAVIS. Are you asking me, sir?

Mr. HILER. Right.

Mr. DAVIS. The hybrid seed corn industry is composed of 200-plus individual companies, individuals and companies, each is organized somewhat differently. Many of the small seed companies sell only hybrid seed corn and perhaps soybean seed.

Some sell the small seeds used on the conservation acres, but proabably not a majority of the smaller companies.

Mr. LODEN. Mr. Hiler, in further response to your question, I think the seed industry, in whatever aspect it is, is a very specialized business, and we are not involved in peripheral businesses like fertilizer. It is a very highly specialized business, and it takes all of the energies directly on the seed operation itself. It is not a diversified business in terms of other products.

Mr. HILER. When we were saying, that you had mentioned initially in your testimony that the 1984 decision for how much seed to plan on has been made and is being implemented——

Mr. LODEN. Right, that is correct.

Mr. HILER. I think that is essentially more of a background question, but what is involved in producing seed?

Mr. LODEN. Well, the first step is to produce the parent seed. You do that in one full season.

Mr. HILER. Right.

Mr. LODEN. That parent seed for 1983 commerial seed was grown in 1981, that parent seed was used to plant seed production fields in 1982, which produced the seed for sale to the farmer in 1983. During 1982, to produce seed of a crop like corn, you make a contract with the farmer, you get the land in the right place, and the right isolation, or whatever.

You also have to go in and detassle and remove offtype plants and perform those services which transform a commodity crop into a seed crop, so that you have a specialized product of known quality and known parentage that you can sell with the farmer, and he can buy it with assurance that it is going to reproduce the same thing that he bought the year before of the same name.

The seed business has a long leadtime before you get the product in the hands of the man who is going to grow it.

Mr. HILER. Now you, sir, do you go through that process, or do you buy this seed and then resell the seed? Or are you involved in this process that this gentleman just mentioned?

Mr. DAVIS. I am involved in the process Dr. Loden just mentioned. We normally buy the majority of the parent seed we plant from a foundation seed company. Many companies do some of this on their own, but most buy it from a commercial foundation seed company.

I might point out, sir, that we heard mention in this hearing of fertilizer dealers having substantial investments in their facilities. The seed people that we are talking about now also have substantial investment in facilities, and even a modest facility may run into low- to mid-7 figures.

Seed dealers, as such, normally are people who sell seed corn on consignment from a seed company, such as ours.

Mr. HILER. I have no further questions.

Mr. SKELTON. Mr. Smith?

Mr. SMITH of Iowa. Well, of course, with soybeans there is no holdover, because germination is so bad the second year, but, with corn, you always hold over seed from one year to another. What percentage do you normally plan to hold over?

Mr. LODEN. The normal percentage of carryover from one year to another is between 25 and 30 percent of sales.

Mr. SMITH of Iowa. So what we are really talking about is that you are going to carry over this year, instead of 25 percent, you will probably carry over an additional——

Mr. LODEN. Twenty-five percent. You will probably carry over half—in that neighborhood——

Mr. SMITH of Iowa. Fifty percent instead of 25?

Mr. LODEN. That is the crux of the problem—is the cost of that additional inventory.

Mr. SMITH of Iowa. So it is the cost of carrying over an additional 25 percent.

Mr. LODEN. Yes.

Mr. SMITH of Iowa. And with regard to the soybeans, since you can't carry them over, why then, the loss would be the difference between market price for soybeans, and the price they had to pay for the seed. But with regard to corn, as one of you said, I think it is a cash flow problem. Now, it seems to me that this disaster bill that we are considering reinstating is the answer. With that, you can borrow at a reasonable rate of interest, money, provided you meet one of two tests, and that is there has been a physical disaster like a tornado or something, and beyond your fault, or a Government action beyond your fault.

Then you can borrow, at a low interest rate, to finance your way out of the problem. Now, that doesn't make you whole or less free, but at least it is some answer. Isn't that primarily the answer?

Mr. LODEN. Congressman Smith, that is exactly what our industry is asking for, and all we are asking for is some low interest rate loans to work out of the problem we are in; it is a solvent business.

Mr. SMITH of Iowa. Right.

Mr. LODEN. It is not a matter of being broke. It is just a matter of being able to have money available to carry this inventory.

Mr. SMITH of Iowa. I agree with you. I want to take the next step, then. The next argument we get into is who should be eligible for one of these loans. Some people around here always want to limit it to mom-and-pop. I have always said that isn't right, because if it is a Government action that caused it, and we are just talking about helping them finance their way out of it, you shouldn't limit the right to borrow it just to mom-and-pops, should you?

Mr. LODEN. We say that we think that it should be available to anybody who has got the problem and makes the application.

Mr. SMITH of Iowa. The problem was caused by something beyond their control, and the cost of this program, I might mention, is something like $1 for a taxpayer in the United States. It is the difference between the cost of money and the cost of loaning, and no insurance company could provide this insurance at this cost. It costs more than that to send out one letter per customer. But we can do it by everybody being involved, and all you get out of the program is everyone receives for $1 a year the knowledge that if one of these disasters strikes, they can borrow some money to finance their way out of it. So I think that this disaster program we are talking about should answer your problem.

Mr. LODEN. I would like to, if I can, Congressman, expand just one moment on the question of mom-and-pop. If you use that terminology as normally defined in this town, you wouldn't have a seed business. We are not a mom-and-pop business. It is a very specialized, highly capital-intensive business.

Mr. SMITH of Iowa. And I know enough about the seed business to know that if you eliminate some of these businesses, there is not going to be as much competition, and others are going to charge more.

Mr. LODEN. That is correct.

Mr. SKELTON. Thank you.

Counsel?

Mr. ORBAN. I have just one short question.

Let's take a look at the future problems which may come up in a decision on the 1984 crop in the PIK program. If the announcement of the decision comes early enough, are you in a position—and I know you mentioned earlier about Canada importers—but are you in a position, if the announcement comes early enough, to solve most of your problems which we have had with the 1983 program, or would you still have significant problems if they went into another year of the PIK.

Mr. LODEN. I have tried to address that point. The time for an announcement of a 1984 program for PIK, to have any effect on our industry is past. It would be very minimal, because you don't have time to plant a crop today for next year.

So the corn people are locked into assuming the worst. We could produce some additional conserving crop seed, like alfalfa, later in the year, when a man makes a determination whether he will save the crop for seed or whether he will cut it for hay.

But, by and large, to have any effect on seed supplies for 1984, the date is already passed.

Mr. ORBAN. Thank you very much.

I have no further questions, Mr. Chairman.

Mr. SKELTON. Thank you so much. I appreciate you gentlemen being with us.

There is a vote. However, we will proceed with Mr. Krajewski, the Cooperative League of the United States of America.

Yes, sir; you may proceed.

TESTIMONY OF TOM KRAJEWSKI, VICE PRESIDENT FOR AGRICULTURAL COOPERATIVES-GOVERNMENTAL AFFAIRS, COOPERATIVE LEAGUE OF THE U.S.A.

Mr. KRAJEWSKI. Thank you, Mr. Chairman.

Mr. Chairman, members of the committee, my name is Tom Krajewski, I am vice president for Agricultural Cooperatives-Governmental Affairs at the Cooperative League of the U.S.A. I appreciate the opportunity to appear before you today, and to speak on behalf of the members of the Cooperative League on the issue of PIK and its effect on cooperatives.

I would like to associate myself and support the testimony of Mr. Strothmann of MFA, Inc. We are proud to have MFA as a member of the Cooperative League.

The Cooperative League of the U.S.A. is the cooperative organization drawing its membership from all types of cooperatives. Our members include farm supply and marketing credit unions, housing, health care, food, mutual insurance companies, rural, electric, and telephone cooperatives.

Mr. Chairman, there is one point that I would like to emphasize from the outset. The vast majority of cooperatives support the payment-in-kind program. This is the case, in spite of the serious problems it is causing us.

Having said that, let me briefly describe the agribusiness climate when PIK arrived on the scene.

We have had record crops brought about by the good weather, high productivity, and a desire to outrun the cost-price squeeze. At the same time, we have had weak and in some cases falling

demand because of high unemployment and depressionlike conditions at home, a worldwide recession, a strong dollar, and a combination of policies of the present and previous administrations, which have caused export sales to drop.

These strong supply and weak demand factors have caused prices to fall and have caused difficulties for entire agribusiness sector. For example, the number of regional farm supply cooperatives which had net savings last year, can be counted on one hand. Many suffered losses, and those that did have net savings, do not expect to do nearly as well this year.

Among the 14 largest farm supply and marketing cooperatives last year, losses out totaled gains by $120 million. Those 14 farmer owned companies had a total of $60 million in net margins or net savings, profits, and a total of $180 million in losses.

Given this situation, it is reasonable to ask why most cooperatives supported PIK, a program, which if successful, promised to further erode their businesses.

Three comments can be made to explain this view. First and foremost, cooperatives exist to serve their member owners. Cooperatives support PIK because they believe it is good for their member owners. The member-owners agreed, and signed up for PIK in record numbers.

Second, cooperatives believe it is a good idea to eliminate the surplus stocks as quickly as possible, so they do not act as a drag on prices and delay recovery indefinitely.

Finally, cooperatives supported PIK because they saw it as one part of a two-part attack on the supply-demand imbalance. At the same time the country is working to correct the oversupply, we should also be working to increase demand.

The belief that there would be a sincere effort to increase demand led cooperatives to support the program, which will temporarily reduce supply.

USDA's Economic Research Service has prepared an initial assessment of the payment-in-kind program. We have reviewed that document, especially the section describing the effect of PIK on the nonfarm sector.

As you know, the assessment predicts a 12- to 15-percent drop in the dollar volume of seed, fertilizers, and pesticide purchases, and an 8- to 10-percent drop in the dollar value in fuel purchases.

Mr. Chairman, we have contacted regional farm supply cooperatives in the Northeast, the Southeast, the South, the Midwest and the Northwest, in every case but two, all of these cooperatives said that their sales volumes would drop due to PIK by a percentage greater than estimated by USDA, and this includes every one of those four areas of products that they sell to the farmers.

Every other input and every cooperative was expected to be down more than USDA estimates. Each of the cooperatives we contacted said fertilizer sales would be off between 18 and 24 percent. Fuel sales are expected to be down between 17 and 35 percent. Farmers will have a gain from the PIK program on the farm, but their off-the-farm business, their cooperatives, will suffer.

We attempted to gather actual sales figures for the first 3 months of this year, but were unsuccessful. These figures would

not be helpful for two reasons. First, it has been a wet, slow, and almost nonexistent spring until this week.

This factor, coupled with the tremendous disruption of the PIK, has delayed purchases of agricultural imputs. PIK has significantly changed the equations and the calculations farmers use to decide how much to plan.

Because of this, they have forestalled purchases, which has changed sales patterns. This disruption in the normal marketing year makes planning even more difficult.

It is also important to note that many farm supply cooperatives rely heavily on three or four inputs for the vast majority of their sales. They do not have significant other product lines to fall back upon.

What can be done to assure that cooperatives do not receive another severe blow next year? We must go back to that supply demand equation and work on the demand side. We must work to increase the demand for agricultural commodities, to help clear the market, to assure that future production can find a home.

This means being absolutely serious about contract sanctity. For a number of years we have taken actions, actions which speak louder than words, which demonstrate that this country is less than serious about being a mature, responsible trading partner.

The method in which the contract sanctity language was adopted and approved, did not inspire confidence among our trading partners. We have a long way to go to show that we are a reliable supplier, and one false step will land us back at the base of the mountain with a long climb before us.

Second, we must begin to take the attitude of being an aggressive seller. If our customers want a long-term agreement, we have to be ready to supply it or they will get the agreement elsewhere.

For too long, we have been content to say we do not do business that way. If the world is going to do business by way of long-term agreements, we must be prepared to make long-term agreements, or we will be left out.

We must expand the Public Law 480 program. The Public Law 480 program works to immediately reduce surpluses. In addition, if used correctly and constructively, it works to promote economic development and long-term demand for our products. We must be prepared to meet the prevailing market price by having surplus or overproduction sales where bonuses are provided when purchase quotas are met.

We must be realistic about the price the delivered products can realize. Price includes all costs, including financing and delivery. It makes no sense to give cut-rate financing and then require a mode of shipping which wipes out the minor advantage of the shipping.

These are five suggestions we feel will be helpful in increasing demand so that future PIK programs are unnecessary. We commend the committee for holding this hearing, and appreciate the opportunity to testify.

Thank you.

[Mr. Krajewski's prepared statement follows:]

PREPARED STATEMENT OF TOM KRAJEWSKI, VICE PRESIDENT FOR AGRICULTURAL COOPERATIVES-GOVERNMENTAL AFFAIRS, COOPERATIVE LEAGUE OF THE U.S.A.

Mr. Chairman, members of the committee, my name is Tom Krajewski. I am Vice President for Agricultural Cooperatives-Governmental Affairs at the Cooperative League of the USA. I appreciate the opportunity to appear before you today to speak on behalf of the members of the Cooperative League on the issue of PIK and its effect on cooperatives.

The Cooperative League of the USA is the U.S. cooperative organization drawing its membership from all types of cooperatives. Our members include farm supply and marketing, credit unions, housing, health care, food, mutual insurance companies, rural electric and telephone cooperatives. Our diverse membership agrees on the economic and social values that are intrinsic to cooperatives—the values of local control, self-determination, and promotion of economic growth through self-help enterprises.

Mr. Chairman, there is one point that I would like to emphasize from the outset. The vast majority of cooperatives support the Payment-In-Kind program. This is the case in spite of the problems it is causing us. Having said that let me briefly describe the agri-business climate when PIK arrived on the scene.

Record crops brought about by good weather and high productivity and a desire to outrun the cost-price squeeze, coupled with weak and in some cases falling demand because of high unemployment and depression-like conditions at home, a world-wide recession, a strong dollar and a combination of policies of the present and previous administrations which caused export sales to drop, have caused prices to fall and have caused difficulties for the entire agribusiness sector. The number of regional farm supply cooperatives which had net savings last year can be counted on one hand. Many suffered losses and those that did have net savings do not expect to do nearly as well this year. Among 14 of the largest farm supply and marketing cooperatives last year, losses outtotaled gains by $120 million. This was the situation last winter when PIK was announced.

Given this situation it is reasonable to ask why most cooperatives supported PIK, a program which if successful promised to further erode their businesses. Three comments can be made to explain this view. First and foremost—cooperatives exist to serve their members. We have seen by the sign-up that producers have voted for PIK. PIK is in their interest. Cooperatives support PIK because they believe it is good for their member-owners. Secondly, cooperatives believe it is a good idea to eliminate the surplus stocks as quickly as possible so they do not act as a drag on prices and delay recovery indefinitely. Finally cooperatives supported PIK because they saw it as one part of a two-part attack on the supply-demand imbalance. At the same time that we are working to correct the oversupply, we should also be working to increase demand. The belief that there would be a sincere effort to increase demand caused cooperatives to support the program temporarily to reduce supply.

USDA's Economic Research Service has prepared "An Initial Assessment of the Payment-In-Kind Program." We have reviewed that document especially the section describing the effect of PIK on the Non-Farm Sector. As you know, that assessment predicts a 12–15 percent drop in the dollar volume of seed, fertilizers and pesticide purchases and a 8–10 percent drop in the dollar value in fuel purchases.

Mr. Chairman, we have contacted Regional Farm Supply Cooperatives in the Northeast, the Southeast, the South, the Midwest and the Northwest and in every case but two, all of these cooperatives said that their sales volume (in dollars) would drop due to PIK by a percentage greater than estimated by USDA. (The exceptions were a Midwestern cooperative estimating petroleum sales down 8–10 percent and an East coast cooperative estimating sales of seed down 6 percent). Every other input at every cooperative was expected to be down more than USDA estimates. Each of the cooperatives we contacted said fertilizer sales would be off 18–24 percent. Fuel is expected to be down 17–35 percent.

We attempted to gather actual sales figures for the first three months but were unsuccessful. These figures would not be helpful for two reasons. First it has been a wet, slow and non-existent spring until this week. This factor coupled with the tremendous disruption of PIK has delayed purchases of agricultural inputs. PIK has significantly changed the equations and the calculations farmers use to decide what and how much to plant. Because of this they have forestalled purchases which, while not totally eliminating all purchases, has changed sales patterns. This disruption in the normal marketing year makes planning more difficult.

It is also important to note that many farm supply cooperatives rely heavily on these three or four inputs for the vast majority of their sales. They do not have sig-

nificant other product lines to fall back upon. What can be done to help assure that cooperatives do not receive another severe blow next year?

We must work to increase the demand for agricultural commodities to help clear the market and to assure that future production can find a home. This means:

1. Being absolutely serious about contact sanctity. For a number of years we have taken actions—actions which speak louder than words which demonstrate that we are less than serious about being mature responsible trading partners. The method in which the contract sanctity language was adopted and approved did not inspire confidence. We have a long way to go to show we are a reliable supplier and one false step will land us back at the base of the mountain with a long climb before us.

2. We must begin to take the attitude of being an aggressive seller. If our customer's want a long term agreement, we have to be ready to supply it or they will get an agreement elsewhere. For too long we have been content to say we do not do business that way. If the world is going to do business by way of long term agreements, we must get in step or we will be left out.

3. We must expand the PL 480 program. The PL 480 program works to immediately reduce surpluses. In addition, if used correctly and constructively works to promote economic development and long term demand for our products.

4. We must be prepared to meet the prevailing market price by having surplus or over production sales where bonuses are provided when purchase quotas are met.

5. We must be realistic about the price of delivered products and realizing price includes all costs including financing and delivery. It makes no sense to give cut-rate financing and then require a mode of shipping which wipes out the minor advantage of the shipping.

These are five suggestions we feel will be helpful in increasing demand so that future PIK programs are unnecessary.

Thank you.

Mr. SKELTON. Thank you very much.

Mr. Smoots, you had questions.

Mr. SMOOTS. Thank you, just a very brief one.

In your fifth recommendation, you talk about mode of shipping. What mode of shipping were you referring to? Could you expand on that just a bit please?

Mr. KRAJEWSKI. Well, I am referring to the requirement that, for example, in a recent blended credit shipment to Egypt where we required U.S. ships to carry the wheat flour to Egypt. That requirement costs more than the subsidy is worth.

Mr. SMOOTS. OK; thank you.

Mr. SKELTON. I am impressed by what you say regarding exports. I don't know if you were here earlier when I preached on it a little bit with the first witness. We don't think in terms of exports as a country. We are going to have to. I am disturbed over the fact that for the last 3 years our agricultural exports have been going down.

We have become the least reliable supplier of agricultural products because of our past policies.

I appreciate your thoughts on that. We are just dealing with our own money, in all of our agricultural problems, until we actually get our markets. They have been taken away from us. We gave them away.

So I appreciate your concern on it, and speaking for myself, I know of many, many others, we have to get back on track, and thanks for your coming and expressing your thoughts with us.

Mr. KRAJEWSKI. Thank you, Mr. Chairman.

Mr. SKELTON. I do appreciate all of the witnesses, staff, the members of this committee for assisting in this. I wish that we could have a follow-on hearing on this same subject in 2 to 3 months.

I am hopeful that we will have some legislation we can look at in the meantime, to at least assist some of these problems that have been expressed today.

Again, thank you so much, and the meeting is adjourned.

[Whereupon, at 11:15 a.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

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